



Economic theory, politics and the state in the neoliberal epoch

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ECONOMIC THEORY, POLITICS AND THE STATE IN THE NEOLIBERAL EPOCH

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THESIS FRAMEWORK

1. INTRODUCTION

- *‘Economic science’ is the arena and the prize of history’s great political battles.*
 - Louis Althusser - *Reading Capital* 1966
- *I don’t care who writes a nation’s laws, or crafts its advanced treaties—if I can write its economics textbooks*
 - Paul Samuelson, “Foreword,” in *The Principles of Economics Course*, (1990)
 -

In the decade since the 2008 financial crisis, the literature on economic ideas has exploded in the popular and academic fields, as the aura of inevitability around the dominant economic common sense crumbled along with the balance sheets of the leading financial houses of the global financial system. Despite the loss of credibility and legitimacy of the ruling paradigm of liberal neoclassical economics and the growing criticism from a range of perspectives, where even the IMF recently published a report titled “Neoliberalism: Oversold?” (Ostry, Loungani, & Furceri, 2016), relatively little has changed in the way economics is taught at universities or how macroeconomic policy is conducted and analysed in finance ministries or central banks across the world.

Clearly, a standard view of scientific development based on the falsification of bad theories has a hard time explaining the persistence of “zombie ideas” in the post-crisis world (Quiggin, 2010). Economic ideas play a central role in the governance of modern societies and in the structuring of the boundaries of political discussions of possible futures. Economic science, and especially macroeconomics, is therefore in its very nature a political endeavour. Perhaps no other field sees such a tight integration between political and scientific developments. But the leading heterodox explanations of the development of economic ideas have also come up wanting. The history of the 20th century had previously taught us that times of economic crisis were times of economic uncertainty, where old

paradigms and ideologies crumble, and new paradigms are built or rise from obscurity to become the new dominant consensus. Such was the case of Keynesianism in the wake of the Great Depression and the Second World War, and similarly with neoliberalism in the wake of the economic turbulence of the 1970s. But “The strange non-death of neoliberalism” (Crouch, 2011), that has followed the financial crisis of 2008, shows that ideological falsification of economic orthodoxy might be a necessary ingredient in the making of an economic paradigm shift, but it is not sufficient on its own. Some other component must be currently missing for the formation of a new hegemonic paradigm.

What seems to be lacking in the post-2008 world, as opposed to the situation in the 1970s or the aftermath of the Great Depression, is the existence of sufficient backing for a new paradigm among social forces, with sufficient power to push through the kind of deep-seated ideological change that is involved in a wholesale shift in economic paradigms. This insight not only has significance for the post-2008 world, but also for the understanding of the rise of neoliberalism as a hegemonic ideology, and the political role of economic ideas more generally.

It is in the light of this situation that this thesis tries to develop and apply a materialist approach, which takes seriously the power and significance of economic ideas, but at the same time recognises their embeddedness in broader economic and institutional contexts, and the complex interplay between states, social forces, ideas and political actors. There are two main implications of this materialist approach to economic ideas. The first is an ontological understanding of ideas as embedded in material relations of power. The second is an epistemological assumption that an understanding of economic ideas needs to be part of a larger theory of capitalism. The first implication leads to an acute focus on specific actors as carriers and disseminators of ideas, and the second implication leads to a theoretical understanding that systems of economic ideas need to fulfil certain functions if they are to become hegemonic in modern capitalist societies.

1.1 What sort of beast is this thesis?

Well, it is a sprawling creature spreading its tentacles across several genres, methods, disciplines and even historical epochs. As such, there is no single overarching framework, but rather a set of individual articles that can all be seen as interventions, theoretical or empirical, into the debate on the relationship between economic ideas and neoliberalism. The exact format of the thesis, and the relation of the individual papers, will be covered in the following section, so here I will merely outline the purpose and structure of this framework. As the thesis is made up of standalone articles and papers, it does not present a standard research framework with a literature review as well as methods and theory sections. Instead, most of this is dealt with in the individual papers.

The aim of the framework is rather to provide an umbrella for the approaches and topics of the individual papers, to draw out some of the common themes and questions that link the individual papers and have guided the research process through the writing of the thesis.

This will be done by first outlining the format and scholarly aims of the thesis and the individual papers in section 2, before situating the thesis in the broader literature on economic ideas and political economy in section 3. Section 4 outlines the overall theoretical framework and section 5 offers some methodological reflections on the differing methods and approaches used in the papers, before section 6 summarises some of the main contributions of the thesis.

Figure 1: content of the thesis

Framework				
Article 1: Ruling the Interregnum: Economic Ideas and Authority in Non-Hegemonic Times	Article 2: Economic Liberalism and the State: Dismantling the Myth of Naive Laissez-faire	Article 3: Beyond States vs Markets: Macroeconomics, Governance and the State.	Article 4: Neoliberalism with Scandinavian Characteristics: The Slow Formation of Neoliberal Common Sense in Denmark	Article 5: Embedded Expertise: A Network Analysis of the Danish Economic Council

2. STRUCTURE AND AIM OF THE THESIS

- *Do I contradict myself?*

Very well, then I contradict myself

I am many, I contain multitudes

- Walt Whitman – *Leaves of Grass* (1855)

As mentioned above this is a thesis by publication, meaning that rather than consisting of one research product presented in one continuous line of argument, the product of the PhD process is a series of individual research articles. While the articles are all interrelated, and as this framework chapter will hopefully demonstrate, form part of a coherent research strategy, they are nevertheless self-contained texts that are meant for individual publication. This format makes the thesis both easier and harder to read. Easier, because each article/chapter can be assessed on its own merits and quality, and harder, because the format means that it is hard to avoid some overlap and repetition, and because the process of individual publication means that the papers might appear more heterogeneous than if the same ideas had been presented within a single body of text.

The format of the thesis has consequences for what has ended up in the final text. In all PhD projects, the thesis represents a partial reflection of the actual research process, where paths of investigation are abandoned, theories are dropped and empirical examinations turn out to be irrelevant. This is not as such a problem, but rather part of any true research process that does not purport to know beforehand what it is eventually going to discover.

In the classical monograph-thesis, the research process generally ends with everything being subsumed under (or fitted into) one unitary format, obscuring the work in the process that did not fit into this final framework. In the thesis by publication, this plays out a little differently, as the individual articles

undergo separate processes and thereby drift away from the rest of the work, rendering the connecting tissue between the papers invisible, in the form of ultimately rewritten conference papers, abandoned empirical investigations, and article sections being culled by peer review. In this way, the monograph tends to render the thesis more coherent and unified than the research process, while the thesis by publication renders it less coherent and unified than the research process has been.

This can be illustrated by the relation between several of the papers. Without going into a complete creation story of every paper, the process of the first article, *Ruling the Interregnum*, can be illustrative. Originally, the paper started as a comparative study of the differences between the reactions to the crisis in the 1970s and the 2008 financial crisis in the macroeconomic establishment in Denmark and the UK. As such, it lay in continuation of paper 4, “Neoliberalism with Scandinavian Characteristics”, and a planned article on British neoliberalism that was abandoned later in the research process. It was out of this empirical analysis that the idea for the more general concept of the ‘interregnum’ was formed, still exemplified with the Danish and British cases. The original version of the article was presented at the International Studies Association Annual Convention in Atlanta in March 2016, but feedback here and at two subsequent research seminars meant that with the final submission of the paper as a journal article for RIPE in February 2017, the scope was expanded from the UK and Denmark to a more theoretical and general assessment of the developed world. The peer review process drew the paper further in the theoretical direction, leaving the version found in the dissertation that was completed in November 2017. In this, and multiple other cases across the other articles, the process of presentation, publication and peer review, have moved the papers further apart, creating lacunas.

2.1 Situating the thesis

Besides the multiplicity of articles, the thesis is also characterised by a multiplicity of disciplinary approaches, where the work moves across a range of disciplinary boundaries across and within the

different texts. This indifference to disciplinary fences and enclosures is partly biographical. The thesis is authored within the auspices of political science, but I started the process of thesis writing in blissful ignorance of the canon of political science, having a disciplinary background with a B.A. in Intellectual History and Sociology and a MSc. in Economic History. But the trespassing is not entirely to blame on ignorance. The problematique of the thesis is located in the intersection of several research literatures, and the aim of the work in the thesis is to bring these together in order to cast some light of the complex interplay of ideas, power and the economy, that make up the processes of macroeconomic policy.

The project will take the form of a series of studies with a variety of methods. The ambition here is not to establish and test simple, mono-causal relations between variables, but to look at the complex interaction between institutions, actors and ideas in the course of economic history. The subject of the thesis is situated in the borderlands between the disciplines of Economics, Political Science and History. In order to understand not only the influence of economic ideas in wider society, but also the way in which these ideas themselves are shaped by historical developments and social forces in these same societies, it is necessary to understand the complex ways in which ideational processes are embedded in institutional networks and promoted or opposed by powerful social actors. This is a project that cannot be undertaken without transcending the conventional borders between established social science fields.

The aim of the thesis is not, however, to make a cross-disciplinary study that studies both the realms of markets and states, the economy and politics. Rather, it is the aim to transcend the divide between what is considered the economic and the political, as the perception of deep ontological differences between the two fields is a central part of the subject of the thesis. In this attempt, the thesis can be seen not as cross-disciplinary, but rather pre-disciplinary, in that it tries to revive the form of political economy that existed before the institutionalisation of the boundaries of modern political science in the late 19th

century (Wallerstein, 1991). By using the broad approach of classical political economy, the idea is to understand how the boundaries between the fields of economics and political science are themselves politically constituted, and must therefore be a part of the study, rather than the axiomatic starting point of a political economy (Watson, 2005). As such, the division between the economical and the political is not a natural state, but rather a fixture of a certain liberal understanding of the social order, where a chasm divides the world of the market, that is governed by the free and equal exchange between independent individuals, and the world of the state, that is governed by hierarchy, coercion and authority. The idea of a realm of the market, where the “natural” forces of exchange and prices would govern social intercourse without the need for state coercion or politics, was part of the great liberal movement of the 19th century that Karl Polanyi outlines in his 1944 *The Great Transformation* (Polanyi, 2001). Here he describes the, ultimately unsuccessful, political project to disembed the market from society.

The division of economy and politics is not incidental or a mere social convention, however. Rather, the idea of a sphere of ‘pure’ economic exchange is grounded in the actual social relations of capitalism. Ellen Meiksins Wood describes how the very notion of a difference between the economic and political was not only unknown, but even unthinkable prior to the rise of capitalism in the early modern period (Wood, 1995). Robert Heilbroner describes this process as a “schism of worlds: one ‘private’, profitable and above intrinsic reproach, the other public, unprofitable and without the presumptive innocence of the private sector. The ideology of economics plays an indispensable part in holding apart activities that, from our perspective, can be seen to intermingle, and in determining what criteria are regarded as appropriate in the assessment of each” (Heilbroner, 1985,116).

The aim of the thesis, framed in this way, is to offer a reading of economic theory as a form of political theory. This approach has several implications. On a methodological level, it opens the work up for an application of some of the nuanced research on the contextualisation of theory in the broader societal

context developed within the tradition of intellectual history in recent decades (see Skinner, 1969, 2002; Wood, 2008, 2012; N. Wood, 1978). On a more substantial level, it opens up new perspectives on the development of the models and theories of mainstream economics; theories that, while trying to present themselves as value-free or “positive” science, often contain very definite normative and political foundations.

2.2: The structure of the thesis and the overall problematique

As the thesis is made up of a number of independent papers, there is no single, overarching structure forming the dissertation, and there is no single methods-section, research question or research design. Instead of a common research design, the different papers are bound together by a common problematique. The main problematique going through the thesis can be formulated as:

➤ *What is the best way to understand the role of economic theory and the interrelation between ideology and material forces in the neoliberal project?*

All the papers in the thesis try to contribute to this problematique from a range of different thematic, chronological and methodological viewpoints/angles. The overall very big question of the role of ideas and theory in the overall neoliberal project can be broken down into a set of sub-questions that will be addressed by a set of papers, with each paper addressing more than one question:

➤ *What is the relation between neoclassical economics and neoliberal ideology?*
(articles 3, 4)

-
- *What is the nature of the interaction of government, elites and organic intellectuals in the construction of hegemony?* (articles 1, 4, 5)
 - *To what extent is neoliberalism distinct from classical (market) liberalism?* (articles 2, 3)
 - *What is the relationship between economic liberalism and the state?* (articles 1, 2, 3, 4)
 - *What are the historical processes through which economic ideas become hegemonic and how do ideological hegemonies break down?* (articles 1, 2)
-

2.3 Overview of the individual articles:

Article 1:

Ruling the Interregnum: Economic Ideas and Authority in Non-Hegemonic Times

Publication Status: Under review for publication in the *Review of International Political Economy* (second round of revisions). Winner of the 2018 International Studies Association Robert and Jessie Cox Award for best graduate student paper.

The article offers a reinterpretation of the legitimization crisis of the political establishment in the wake of the financial crisis. With Brexit, the election of Trump and the rise of anti-establishment parties to the left and right, the neoliberal ideas of the global political elite have lost much of their legitimacy. While the hegemony of neoliberalism is severely challenged, no clear alternative has yet emerged. This paper investigates the current state of economic theory and governance through the concept of

interregnum. While IPE theory has a set of different theories about periods of hegemony and paradigmatic stability, the periods between stable hegemonies are distinctly undertheorised. This is especially problematic as economic history shows that these periods of interregnum can span decades. The paper will argue that the notion of interregnum is distinct from the concept of crisis, and the paper develops a theoretical concept that describes periods of interregnum through four key criteria: 1) Absence of a stable elite consensus, 2) Institutional continuity, but decreased effectiveness of key institutions, 3) Realignment of social and class forces, and 4) Presence of competing economic strategies within the elite. The concept of interregnum is employed to analyse the changes in economic ideology that followed the breakdown of the post-war Keynesian consensus in the 1970s as well as the current aftermath of the 2008 crisis.

Article 2:

Economic Liberalism and the State: Dismantling the Myth of Naïve Laissez-Faire

Publication status: Under review for publication in *New Political Economy*.

The article offers a critique of the prevailing understanding of the relationship between neoliberalism and classic 19th-century liberalism in contemporary IPE and offers a redefinition inspired by Polanyi and Gramsci. Within critical IPE studies, consensus has emerged that neoliberalism cannot be reduced to a simple attempt to roll back the economy and let loose free-market forces. However, this insight relies on contrasting neoliberalism with classic liberalism, that is, a simple attempt to implement just this naïve laissez-faire ideology. In contrast, this article argues that 19th-century liberalism is also characterised by an active use of state and legislative power. Through a historical study of two cases

from 19th-century Britain, Poor Law reform and the Gold Standard, the paper will argue that state action played a central role even during the heyday of laissez-faire liberalism.

With a starting point in Polanyi's dictum that 'laissez-faire was planned', this reinvestigation will point toward a need to develop a more nuanced understanding of the distinctions between economic theory, ideology, and practical policy, as well as pointing toward a general reinterpretation of the role of the state in liberal economic ideology.

Article 3:

Beyond States vs. Markets: Neoliberalism, Macroeconomics and Democracy

Publication Status: Submitted for publication to *Economy and Society*

The paper will analyse the ideological assumptions at the core of the form of neoclassical macroeconomic theory that emerged to eclipse Keynesianism in the 1970s. By revisiting some of the central papers and models such as Kydland & Prescott's 1977 "Time Inconsistency Model", Sargent & Wallace's 1976 "Policy-ineffectiveness proposition" and the microfoundations of the Lucas critique from 1976, the paper offers a reinterpretation of the main tenets of the tradition of new classical macroeconomics (NCM). In policy and scholarly debates, NCM has primarily been seen as a critique of government intervention in the economy. The paper challenges this notion and stresses that NCM is not primarily a critique of government action as such, but rather of the role of democracy and popular participation in governance. This re-reading offers new aspects to the understanding of the general relationship between neoclassical economics and neoliberal policy, and casts new light on the understanding of why neoliberal governance has generally not resulted in any substantial rollback of the state in the economy.

Article 4:

Neoliberalism with Scandinavian Characteristics: the Case of Denmark 1970-2004

Publication Status: Unpublished working paper, *Department of Political Science, University of Copenhagen*

This paper traces the ascent of liberal economic ideas in the macroeconomic establishment in Denmark from the 1970s to the 2000s. Based on a systematic analysis of documents from the Danish government and the Economic Council published between 1970 and 2004, this paper demonstrates that Denmark experienced a marked shift in paradigms during this period. Full employment Keynesianism dominated the 1970s and neoclassical liberalism became dominant from the late 1980s and early 1990s.

The paper argues that the nature of this paradigm shift is more uneven and gradual than the literature traditionally suggests. Furthermore, the adoption of new strict monetary and fiscal policies was already in place from the early 1980s, before the intellectual tools of the new paradigm were dominant and developed. This suggests that it was not the intellectual dominance of liberal ideas that caused the initial adoption of neoliberal policies. It is argued instead that the central role of economic theory is rather in legitimating and justifying policy, and that the stability of economic strategy, despite changes in government, points towards a situation where neoclassical liberalism has taken the form of common sense in the policy elite. This may in turn restrain the scope of legitimate public debate and policy action.

Article 5:

Embedded Expertise: A Social Network Analysis of the Danish Economic Council

Publication status: Translated version of article Published in *Politik* (2014) vol 87 (2), Co-authored with Lasse Folke Henriksen

The paper offers a social network analysis (SNA) approach to the study of the connection between academic economists and wider elite circles. The article represents the first attempt at situating academic economists within the wider elite networks of a country, through a case study of Denmark. The analysis is focused on the Economic Council and the position and networks of the highly influential economists from the council's presidency, where many are centrally placed in the elite networks. Here, the paper draws on a comprehensive dataset on the entire Danish power elite gathered by Ellersgaard & Larsen (2012). The focus of the article is primarily empirical, by demonstrating the effectiveness of the methods of social network analysis as a supplement to more traditional institutional analysis. At the time of writing, this line of research is being developed further by an investigation of the elite integration of the entire Danish economics profession, with further added theoretical reflections on the role of the economist as a public and organic intellectual.

3. THE THESIS IN IPE LITERATURE

- *Social science was once a vast, wide open range where anyone interested in the behaviour of men and women in society roamed just as freely as the deer and the antelope. There were no fences or boundary-posts to confine the historians to history, the economists to economics. Political scientists had no exclusive rights to write about politics, nor sociologists to write about social relations."*

- o Susan Strange, on the ideals of IPE, foreword to *Paths to International Political Economy* (1984)

The ideas behind the thesis have, of course, not been developed in a vacuum, but have been formed by and developed within a scholarly tradition. In this vein, the content of the thesis should be understood as an intervention and contribution to such a scholarly tradition. As with all academic work the main contributions of the articles in the thesis lies not in their individual literary quality, but in the fact that they form a part of a collective oeuvre, where through debates, rebuttals, appraisals and critiques, a scholarly community gradually moves forward towards a more true description of the world. While the cross- or pre-disciplinary nature of the approach of the project was outlined in the previous section, the thesis does have a more specific scholarly target audience. The texts are written as contributions or interventions in the field of International Political Economy, and, to be more specific, the so-called 'British School' of IPE, with its range of theoretical approaches (Cohen, 2008; Phillips & Weaver, 2010). This choice is of course not incidental, but rather motivated by the fact that IPE, in the vein of the quote by Susan Strange, offers an avenue for exactly this kind of cross- or pre-disciplinary scholarship.

While this has not restricted the methods and analytical inspirations applied, the intended scholarly audience is the IPE community, and the research question asked have to a large extent been formed by the debates taking place within contemporary IPE scholarship. This can be seen in the fact that while

history and historical dynamics play an important role in the majority of the articles, they should not be read as works of history – and probably would be seen as far too generalising and bold in their claims, were they to be submitted as works of intellectual or economic history. Rather, the ambition is to use history as a tool of engaging with some of the theoretical and empirical debates taking place in IPE, and using the historical record as a way of building and testing theories and hypotheses that help us make sense of the dynamics of contemporary political economy.

It should be stated that, while much of the debate that the thesis circles around takes place within the Political Economy orbit, the participants are as often economists (Backhouse, 2009, 2010; Fine & Milonakis, 2009; Foley, 2009; Mirowski, 1991), historians (Burgin, 2012; Cook, 2017; Maclean, 2017), or sociologists (Brown, 2015; Fourcade, 2009; Fourcade & Babb, 2002; Fourcade, Ollion, & Algan, 2014).

3.1 Between Marxism and constructivism

There are two strands of literature within the broader IPE tradition in particular that have proved decisive in shaping the outcome of the thesis. The original intention when setting out to write the thesis was to combine the analytical strategies and techniques of the ideational turn within constructivist IPE, including authors such as Mark Blyth, Vivien Schmidt and Colin Hay, with a Marxian framework – an ambition that was eventually abandoned because of theoretical and ontological incongruities that it proved impossible to overcome¹. While I ended up adopting a theoretical framework for understanding economic ideas inspired largely by Gramsci and the Gramscian tradition, as laid out in section 4, the thesis nevertheless still owes a great deal to much of the constructivist and institutionalist IPE literature, and speaks to questions across a broader section of the IPE literature. As such, this section will continue with a short recognition of some of the debts owed to various strands of the

¹ The incongruities were hammered home in a long conversation with Bob Jessop at Historical Materialism at SOAS, London in November 2014.

constructivist literature, as well as some of the ultimate limitations of the approach (the limitations of the Marxist tradition are dealt with in section 4). This is followed by a more specific discussion of the concept of neoliberalism, which seems to be both omnipresent in the scholarly literature as well as being increasingly criticised for being a catch-all concept, lacking analytical precision.

3.1: Developments within the constructivist paradigm

The dominant strands of scholarship on economic ideas within critical IPE are centered within various forms of constructivist theory. The aim here is not to give a comprehensive review of this large and rich literature, but mainly to outline some of the main features in order to state the problems associated with the constructivist approach.

Within institutionalist scholarship, constructivist studies of economic ideas grew out of the engagements with the rational choice or structural foundations of earlier institutionalist schools that lead to a “ideational turn” in the 1990s (Blyth, 1997; Schmidt, 2008, 2010). This idea-centered approach does not view ideas as a pure cover for the underlying interests of actors or as necessary adaptation to underlying changes in the economy, but instead as possessing a causal or constitutive power of their own. This can either take an actor-centred form with a focus on ideational entrepreneurs who manage to use changing economic circumstances to reframe economic debates according to their own underlying ideological preferences, or through a more impersonal structural analysis. This development was largely inspired by Peter Hall’s seminal 1993 article, *Policy Paradigms, Social Learning, and the State* (Hall, 1993), where he utilised the Kuhnian concept of paradigm to describe the shift between policy paradigms. In this way, he stressed the ultimately contingent and historical nature of the dominant ideational structure, as well as the crucial role of crises in the shift between policy paradigms. The basic model was expanded later by Mark Blyth, who put an emphasis on the role of uncertainty in crisis situations and the ability of actors to use ideas to navigate this insecurity (Blyth, 2002) or by Colin Hay, who stressed the basically discursively constructed nature of the concept of crisis itself, so the

problem, as well as the solution are both discursively constructed in the process of paradigmatic change (Hay, 2001, 2004a).

The new wave of ideational literature also contains the performativity approach, where emphasis is put on the ability of economic ideas and concepts to not only describe economic reality, but also to create the very social realities they are supposed to describe (Callon, 1998; Henriksen, 2013). The seminal study here is *An engine not a camera* by Donald MacKenzie (2008), that describes how the Black-Scholes formula for pricing financial assets based on their risk created new derivatives markets. There is also a strand of literature inspired by Foucault's work on neoliberalism (Foucault, 2008), who views economic ideas not as conscious strategies and ideologies held by specific actors, but rather as a form of generalised normativity of competition and entrepreneurship that encompasses both governed and governing society (see Davies, 2014; Dean, 2012; Tribe, 2009).

While the recent wave of constructivist-focused scholarship has greatly expanded on the mechanistic and reductive approach of rational choice and orthodox Marxism, there are also problems with the lop-sidedness of the study of ideas. Without attention being paid to the problem, the field of study – economic ideas – can easily turn into an ontological claim: the primacy of ideas over other factors. This can lead to a conscious or unconscious overstatement of the power causal of ideas, and a concurrent understatement of other factors such as the institutional embeddedness of ideational debates, the constraints of economic structures or class interests and the organisation of underlying ideational changes. This shows itself in several recent debates. Besides the debates around the puzzle of the non-paradigm shift in the wake of the 2008 crisis, the main debates in the study of economic ideas are around the rise of neoliberalism. Much of the recent work on the global and local spread of neoliberalism has started to transcend the idea of one simple neoliberal paradigm, and casts light on the specific implementation of neoliberal ideas in local or constitutional contexts, looking at specific countries (Ban, 2016; Pedersen & Campbell, 2014) or international organisations (Chwicroth, 2009;

Morreti & Pestre, 2015), or the differences between different brands of the global neoliberal movement (Van Horn, 2011). All this is a clear step forwards, in particular the covering of the central role of the international network around the Mt. Pelerin Society in the spread of the global spread of the neoliberal doctrine (Burgin, 2012; Mirowski & Plehwe, 2009). However, the almost universal success, in recent decades, of neoliberal ideas in a wide variety of political and economic contexts points to a strong if not determining influence of global, structural factors, not just local ideational actors.

It should be possible to study the field of economic ideas without buying into the assumption of the ontological primacy of ideas over material factors, interests, institutions or class forces. The next section will try to outline why a historical materialist approach can be a productive starting point for a discussion of the relative power and influence of economic ideas.

3.2: The problematic concept of neoliberalism

By studying the term neoliberalism, the thesis moves into a theoretical minefield. Neoliberalism is of course inherently a slippery concept, with a complicated history, that is used in different, sometimes conflicting ways in the research literature (Boas & Gans-Morse, 2009; Flew , 2014) and in broader public discourse. This confusion has led some to completely refrain from using the term neoliberalism. Andrew Gamble, one of the leading English readers of Hayek, for example, speaks of economic libertarianism (Gamble , 2013), while the economist John Quiggin prefers to talk about market liberalism (Quiggin , 2010).

But at the same time the consistent turn towards liberal and market-based policies and ideas in the years since the 1970s is well documented (Cahill , 2014; Campbell & Pedersen , 2001; Crouch , 2011 ; Fourcade & Babb, 2002; Harvey , 2007; Chwioroth, 2009; Stiglitz , 2004), and now no better concept has emerged to describe the process. Here I am in agreement with Susan Watkins in the quotation above, when she argues that the term of neoliberalism, with all its inherent problems and imprecisions, is still necessary in analysing the last four decades of economic history.

Being a contested concept is of course nothing unique for neoliberalism. Indeed, as Michael Freeden notes, every politically and ideologically important concept, such as democracy, liberty, legitimacy, rule-of-law, etc., is in its very nature the object of contestation (Freeden, Sargent, & Stears, 2013)

Any social structure needs to have some sort of ideological system that underpins it. An economic system simply cannot function if its workings are not presented as legitimate, or at least meaningful, to the majority of participants in the economy (Boltanski & Chiapello, 2006). In advanced capitalist economies, such a system of justification has always had an element of economic science, that is, an understanding of how the economy works and what is the legitimate scope of the different economic actors – be it labourer, land-owner, industrialist, or the government (Heilbroner, 1985). In the Pax Britannica of the mid-19th century, the system of global free trade and the Gold Standard was underpinned by laissez-faire liberalism, drawn from classical political economy (Bagchi, 2005; Polanyi, 2001). The Bretton Woods system of regulated capitalism in the post-war era was underpinned by Keynesian macroeconomics (Eichengreen, 1996; Ruggie, 1982; van der Pijl, 1989). This thesis deals specifically with the transition in paradigms taking place with the shift from this regulated capitalism of the post-war era to the neoliberal policies of recent decades. The focus will be on the specific role academic economists and economic theory play in the formulation and legitimation of economic policy, and the role of economic science and economists in the shifts in hegemonic worldviews that took place in the period.

This turn in economic theory was combined with a methodological shift towards mathematical formalisation. The use of mathematics and models was nothing new in economic science. It was formalised in what has been called the neoclassical synthesis of Keynesian macro- and neoclassical microeconomics, established by central figures such as Solow, Hicks and Samuelson in US the 1940s and 1950s (Backhouse, 2010; Backhouse, 2002; Samuelson, 1998). Nevertheless, after the 1970s, we see a more extensive use of mathematical methods and formal modelling in the research and training of the

economics profession. This formalism has been combined with a widespread application of neoclassical concepts, such as rational expectations theory or general equilibrium models in macroeconomic research (Morgan & Knuuttila, 2012). This led to neoclassical dominance in mainstream economics and the increasing marginalisation of competing schools such as Post-Keynesian, Institutional, Austrian or Marxist economics (Fullbrook, 2007; Hodgson, 2001; Lee & Harley, 1998)

Furthermore, in recent years a growing body of scholarship has grown up around the uncovering of the networks, intellectuals and organisation that advocated and prepared the neoliberal project, before its eventual triumph in the 1970s. The centre of these networks focused on the connection between neoliberal intellectuals and what Hayek in 1949 in *The Intellectuals and Socialism* described as “second hand dealers in ideas”(Hayek, 1949,417); that is, journalists, popular writers and those who later became think tank operatives. The modern scholarly interest in these networks started largely with Cockett’s book *Thinking the Unthinkable* on the think tank movement in the UK behind the formulation of Thatcherism, with roots in the immediate post-war period (Cockett, 1995). Recently, a large amount of literature has uncovered the substantial network of rich patrons and influential academics behind institutions such as the Mt Pelerin Society (Burgin, 2012; Mirowski & Plehwe, 2009), the Chicago school (Davies, 2010; Van Horn, 2011) and the mobilisation of business interests and private philanthropists behind the later neoliberal offensive into academia and the think tank world, especially in the US from the late 1960s onwards (Blyth, 2002; Hacker & Pierson, 2010; Maclean, 2017; Mayer, 2016).

It seems obvious that the parallel shifts within the modes of macroeconomic regulation and the development of macroeconomic theory are not purely incidental. And in describing the systematic connectedness of these developments, a coherent concept seems necessary. As such, I tend to second Susan Watkins’ description of the concept from New Left Review: “Neoliberal’ is a dismal epithet, of

course, imprecise and over-used. But some term is needed to describe the macro-economic paradigm that has predominated from the end of the 1970s until - at least - 2008” (Watkins , 2010, 7).

All of this does not mean, of course, that neoliberalism is the same everywhere. The concept of variegated neoliberalism (Brenner, Peck, & Theodore, 2010), tries to describe a set of geographically diverse and mutually integrated versions of neoliberalism – where the different models, in contrast to Varieties of Capitalism (Hall & Soskice, 2001), are not separated equilibrium economic models, but interdependent versions of the same basic process. Jamie Peck states in *The Construction of Neoliberal Reason* that neoliberalism should not be viewed as a state or a defined set of policies, but more of an open-ended process – neoliberalisation rather than neoliberalism, “neoliberalisation, as an open-ended and contradictory process of politically assisted market rule”(Peck, 2010, xii). While neoliberalism can be traced historically from the kernel of an idea in the free-market thinking of the Mont Pelerin Society and the Freiburg school, the concrete implementation of neoliberalisation is always incremental and incomplete. Indeed, the strength of the neoliberal project is exactly this combined utopian and unfinished character. “Neoliberalism, it will be argued here, has only ever existed in ‘impure’ form, indeed can only exist in messy hybrids. Its utopian vision of a free society and free economy is ultimately unrealizable. [...]it has been associated with rolling programs of market-oriented reform, a kind of permanent revolution which cannot simply be judged according to its own fantasies of free-market liberation” (Peck, 2010, 7). It is in this sense, as a global process with local variation, rather than as a definite set of policies, that neoliberalisation is understood in this thesis.

4. THEORETICAL INSPIRATIONS

- *Economics does not “legitimate” activities that in fact the ruling class knows in its heart of hearts to be wrong. It succeeds, rather, in the offering definition of right and wrong that exonerate the activities and results of market activity.*
 - o Robert Heilbroner – *The Nature and Logic of Capitalism* (1985)

As mentioned in section 2, the thesis-by-publication format tends to render certain parts of the research process invisible (as does the monograph format), and as a consequence leaves a final product that ends up being more scattered and heterogeneous than the underlying process would justify. This section therefore seeks to leave some of that work visible by presenting some reflections on the overarching theoretical principles and motivations that have informed the research process. The individual papers still have their own theoretical framework, and should be read as standalone works, but there are nevertheless some common theoretical ambitions that underlie most of the work in the thesis. As hinted in the introduction, these common ambitions are primarily motivated by combining a nuanced consideration of the power of economic ideas, with a materialist and Marxist approach to political economy.

This is motivated by the wish to connect the work on economic ideas with a systematic theory on the dynamic structures of the capitalist economy and the social relations of production and ownership which shape the field in which economic and political struggles takes place. As will be demonstrated below and in the chapter, this is accomplished by drawing on inspiration from Antonio Gramsci and the wider (neo)Gramscian tradition, as well as figures such as Karl Polanyi and Jessop. The reflections below should not be seen as an attempt to develop a complete and coherent theory of economic ideas or ideology. Such an ambition would probably constitute a thesis in itself. The idea is rather to

recognise theoretical debts and inspirations, as well as make visible some of the broader theoretical reflections that have motivated the work in the individual articles.

4.1: Marxism's ideology problem

While in recent years Marxist economists have produced masterful treatments of the development of economic thought and limits of neoclassical orthodoxy (Fine & Milonakis, 2009; Foley, 2009; Shaikh, 2016; Wolff & Resnick, 2012), less attention has been paid to the connection between the world of economic theory and the worlds of political struggle.

A part of this neglect is probably due to the assumption that collective action can be determined directly by the structure of capitalist production, or the class interest of the proletariat or bourgeoisie. But, as has been pointed out by authors such as Mark Blyth (2002), orthodox Marxism shares a problem with the rational choice paradigm, in that the determination of such interests can often be a more complicated affair than is immediately apparent. Interests are always the perceptions of actors (individual or collective) of their situations in relation to a future. And with the future always being uncertain (much economic turbulence in capitalist economies indeed derives from the uncertainty of investment prospects), the definition of interests today must always be based on some theory or perception of the future. Without the trick of “rational expectations” from modern neoclassical economics, where actors are presumed to work with full knowledge of the future, such perceptions must be ideationally constructed.

A simple notion of pure material interests as being the motor of political and economic struggle quickly runs into problems, for the exact nature of these interests is highly variable historically. How can the material interest of the bourgeoisie be to support trade tariffs one year, and only a few years later be to advocate full-scale trade liberalisation? Of course this might be the consequence of changes or of key conjunctures, but we quickly run into a situation of explaining interests, rather than using them to do

the explaining. At the core of the Marxist theory of the working of the capitalist class is the simple idea of profit maximisation as the driver of investment. The problem here, however, is that this profit is only realised at some point in an unknown future. As such, there is a need for some kind of model to help predict this essentially unknowable future. This opens the field for ideas and ideologies as methods for reducing the complexity of the manifold possibilities of an unknowable future.

As such, economic ideas and ideology cannot be reduced to external propaganda, directed at the masses. There is no way of determining future profits that is not mediated through a set of ideas. There is no neoclassical rational actor inside the global capitalist class – only politically mediated actions. There is no internal secret sphere of cynical reasoning, where only profits and interest reign. Ideas are essentially methods of complexity reduction, where an opaque future can be rendered intelligible, and thus open for strategic actions. Furthermore, this allows for the construction of political platforms and coalitions, based on the projection of potential futures².

4.2 From Gramsci to neo-Gramscians

The largest theoretical influence on the thesis probably comes from Antonio Gramsci. This is visible not only in the articles employing a distinctly Gramscian frame, like *Ruling the Interregnum* and *Neoliberalism with Scandinavian Characteristics*, but also in the broader approach of the thesis.

In this I am of course drawing back on the theories of ideology, hegemony and the role of intellectuals that Antonio Gramsci developed within Marxism in the *Prison Notebooks* (Gramsci, 2003), but also on a range of authors in the neo-Gramscian tradition (Bruff, 2014; Cox, 1981, 1987; Gill, 1995a, 1998; Macartney, 2011; Morton, 2007, 2011). I do this because a Gramscian political economy framework

² Ideas are not only essential as cognitive devices, but also as measures of coordination. A major insight from the work of Keynes and post-Keynesian economics is that the prospect for future profit, and thus of the rational level of present investment, is also dependent on the investment decisions of other actors (Minsky, 2008).

allows for an approach that takes ideas seriously, without necessarily assuming that ideas are in themselves the main causal agents in political-economic development. At the same time it is a framework that takes in not only ideas, but also the interactions between ideas and broader social forces in society.

The Gramscian framework is here adopted as a way of integrating the ideas into the general analysis of the forces shaping the development of contemporary capitalist economies. The aim here is not to isolate discrete ideas, individuals or organisations and then describe their particular influence on capitalist development. Instead I will follow Wolff and Resnick (Wolff & Resnick, 2006) in looking at social processes as essentially always overdetermined, that is, influenced by all the other myriad social processes that are going on in the social totality. The way any variable influences another is thus always influenced by other social processes in the social totality, and any attempt of isolation is bound to fail. This does not mean that individual factors cannot be studied in and of themselves, but that such studies, and the quest to identify individual causal mechanisms or relations, can only be studied in an open system where they are always influenced by a multiplicity of other factors, as laid out in the tradition of critical realism (Bhaskar, 2008; Lawson, 1985),

While any social scientific investigation always takes the form of an exploration of a certain aspect of the social whole, this must be understood theoretically as the “entry point”, into a complex web of political, economic and ideological causalities, where the individual variables can be both causes and effects simultaneously. Wolff specifically draws this understanding of causality in the social sciences back to Gramsci (Wolff, 2011, 65), stating that: “the separation of events in time and place into causes and their effects struck [Gramsci] as unacceptable, one sided, narrow” and that “his key terms for conveying his alternative to cause and effects logics were ‘reciprocity’ and ‘ensemble of relations’.

In the world of the current neoliberal project, these general considerations of methodology can be implemented in the dialectical interplay between three main factors – ideas, material capabilities and

institutions (Cox , 1981). The relation between these three factors is presented by Cox as a historical structure or framework. In order for such a framework to be stable over time, it needs to have a certain amount of coherence amongst the elements. A framework does “not determine people’s action in any mechanical sense but constitutes the context of habits, pressures, expectation and constraints within which actions take place” (Cox 1981, 135). Such a framework is often institutionalised to a certain extent, as formal institutions represent a way of dealing with internal conflicts without resorting to force. For Cox, such institutionalization was tied closely to the presence of hegemony. Changes in hegemony, often constituted by a central class or class formation, are often tied to the emergence of a new class or alliance of classes. The dynamic of class formations and the historical and contingent processes required in the amalgamation of disparate class faction and social groups into coherent, ruling blocs are both developed further by the Amsterdam school. Here, authors such as Kees van der Pijl and Bastian Apeldoorn follow the dynamic processes that lie behind the formation of classes and elites on a national, European or Atlantic level (van Apeldoorn, 2000; Van Apeldoorn & De Graaff, 2015; van der Pijl, 1984,1989; van der Pijl & Yurchenko, 2014)

No matter what sort of ruling coalition is constituted, the imposition of hegemony demands that a particular interest can be expressed as a general interest. This process demands two crucial elements: a) a theory of the capitalist economy with scientific credibility, b) the means of translating this theory into a workable policy program. If such a program can be formulated and is supported by sufficiently powerful social forces in a society, it can take the form of “common sense”, that is, a set of assumptions that – while not covering the entire spectrum of debate – establish the limits of what can be considered valid arguments in the given settings, thereby shaping the scope of political action.

4.3 From Polanyi to the Regulation School

Another main influence to be seen in the work in the thesis is Karl Polanyi. While much of the inspiration from Gramsci is methodological and theoretical, the inspiration from Polanyi is very much tied to his substantial analysis of the project of economic liberalism. Polanyi's magnum opus, *The Great Transformation* (2001), offers a distinct reading of classical liberalism as it played out in 19th century Britain as an essentially political, and even utopian, project. While classical liberal economists, as well as modern economics, prefer to describe market forces as natural phenomena (Mirowski, 1994), Polanyi's work points to the political and normative nature of the project of market creation. The stated aim of liberal political economy might be to let individuals exchange freely on the market, without any interference from the state or collective politics, but the way to this ideal market society has always involved state power. The heavy hand of the state has been necessary to tear down the obstacles to the free movement of market forces, be they local tariffs, protective institutions or communal norms (Polanyi, 2014). As Polanyi famously states: "While laissez-faire economy was the product of deliberate State action, subsequent restrictions on laissez-faire started in a spontaneous way. Laissez-faire was planned; planning was not" (Polanyi, 2001, 147).

A further central feature of Polanyi's diagnosis of market capitalism is that the system is fundamentally incapable of self-stabilisation. Left to themselves, disembedded market forces will undermine and destroy the societies from which they grew, because the violent fluctuation of market prices in labour, land and money, simply do not fit with the stable needs of labour and communities. As such, any attempt to release market forces is always accompanied with a concurrent attempt to protect society from these market forces, through the so-called double movement.

Polanyi's insight of the dependence of capitalist market economies on the regulation of the state is perhaps most forcefully reworked by the French regulation school. Figures such as Boyer and Aglietta (Aglietta, 2000; Boyer, 1990) combined a Marxist analysis of capitalist production with Polanyi's insight

that capitalist production needed the active stabilisation of state and non-state institutions to avoid the chaos and instability of freely fluctuating market forces. As such, they developed a framework where a capitalist economy needed not only a mode of accumulation, but also a mode of regulation, to function successfully.

The idea of a mode of regulation is developed further by Bob Jessop, who combines it with the Gramscian idea of hegemony. In *The Future of the Capitalist State* (2002), he describes how “economic hegemony exists where a given accumulation strategy is the basis for an institutionalised compromise between opposing social forces”, and how this involves “constructing an imagined ‘general economic interest’” (Jessop, 2002, 30). For Jessop as well, the state is the central arena in the struggle for hegemony. To establish economic hegemony, whether by factions of capital or cross-class compromise, it is necessary to formulate a hegemonic project, not only to provide an accumulation strategy, but also a ‘state form’, that is, a notion of the regulation and form of the state, including its role in the broader economy (Jessop, 2002, 2007).

4.4 Macroeconomics, ideology and the state

Going from these theoretical reflections and back to the question of economic theory, it is possible to see how ideology is baked into the field of macroeconomic and national accounting from the very beginning. The presentation of a national economy, with the growth of Gross Domestic Product (GDP) as the central goal of economic policy, ensures that there is a tacit assumption that there is a one single national interest. Furthermore, by measuring economic wellbeing as a simple means of GDP, the idea is entrenched that citizens on a fundamental, apolitical level share in the overall wealth, with divisions based on class, race and gender added on as ‘political’ factors that can be discussed after growth is secured. In that way, a focus on GDP, by design, obscures the always-already distributional effects of any economic system. Gramsci’s notion of hegemony is that the particular interest of a group

is successfully presented as the general interest. And in this context, macroeconomics proper has been quintessentially ideological since its inception in the post-war years. Both in its Keynesian and neoclassical variants, the very field of macroeconomics promises the possibility that the state, through the correct set of growth-inducing policies, can create a positive-sum game that effectively transcends of political divisions in the nation.

The ideological character of economics as a science is tied to its relationship to the state³. Besides some practical rules of thumb, there is little in modern neoclassical economics that is especially relevant for the business world⁴. Neoclassical economics is, paraphrasing Lionel Robins, about the optimal allocation of resources in a world of utility-maximising individuals. But this is not the world of the capitalist economy, which is populated by firms maximising monetary profits.⁵

More business relevant fields such as management and accounting are not only outside economics, but neoclassical economics seems chronically unable to integrate them (Fine & Lapavistas, 2000). While mathematical and econometric training does provide tools that are useful in certain business functions, routine tasks are often undertaken by accountants, and jobs with a heavy demand for mathematical skills, such as quantitative analysts in finance, are often filled by people with a background in the natural sciences (Ho, 2009; Norfield, 2016).

As such, while economics primarily is a science *about* markets, it is a science *of* the state. This is firstly an epistemological issue, in that economics, even when we are speaking about microeconomics, deals with

³ Jessop defines the state as the entity which has the legitimate monopoly of speaking for the common interest of a population. “The core of the state apparatus can be defined as a distinct ensemble of institutions and organisations whose socially accepted function is to define and enforce collectively binding decisions on a population in the name of their ‘common interest’ or general will” (Jessop, 2007, 9).

⁴ Only in finance has there been a major practical applicability, such as the Scholes-Black formula for the pricing of securities – see for instance (MacKenzie, 2008).

⁵ For a discussion of this different implication of these principles in economic history see (Heim & Mirowski, 1987).

aggregates, markets and optimisations at a certain level of generality. This lends it naturally to stating the overall efficiency of certain transactions.

But it is also a question of genealogy. Modern neoclassical economics, and the tradition of political economy that it grew out of, was born as a science of statecraft, and it has been developed as a tool of governing a *national economy*. The mercantilists and physiocrats were interested in ways of maximising the bullion stock or agricultural production of the state (Backhouse, 2002) so as better to prepare it for competition with other states. And it is no coincidence that the founding text of classical political economy is named *An inquiry into the nature and causes of the Wealth of Nations* (Smith, 1990 [1776]). Adam Smith's project was not to increase productivity through new techniques of management or distribution. It was rather to advise princes and parliaments on the correct mode of governing the national economy.

It was not until the middle of the 20th century thus that we saw the emergence of a real macroeconomics – that is, a systematic attempt at formulating a set of theories and instruments for the indirect governing by the state of the overall conditions of the economy, while leaving the direct investment decisions in the hands of the owners of the means of production. The central building blocks in this development were the instruments of demand management drawn from Keynes (Keynes, 2008 [1936]), and the quantitative tools on national statistics as pioneered by Tinbergen (Beggs, 2011).

4.5 Theory and ideology

The statement of the ideological character of economic theory only gets us this far, and the ideological functions of economic theory can usefully be divided into two ideal typical categories – strategic and legitimating.⁶

⁶ This is inspired by Gramscian political scientist Radhika Desai's work on Thatcherism (1994), where she speaks of the directing and legitimising functions of ideas.

In the strategic function, theories are used as plans or blueprints that deliver solutions and lay out new institutional orders. This is often connected to moments of crisis, where old institutions are seen as non-functioning and new institutional orders have to be built, and coalitions of parties, class factions and social groups are redefined. The strategic use of ideas allows for the coordination of the action of a wide assemblage of economic and social actors. The other function is legitimating, justifying the policy of the state, and presenting it as rational and legitimate for the population as well as the international world system, comprising private market actors as well as states and international organisations. Theories in this way function as ways structuring the justification of the given social order – an essentially ideological function of presenting the institutional order as functional and delivering equitable and just results.

In operating with the strategic-legitimizing distinction, it is important not to take this as a distinction between true motivations and external propaganda. Instead, legitimation – that is, formulating the policies of the government in a way that they appear acceptable to the surrounding world – is one of the most central outcomes of macroeconomic policy. This does not only include legitimation towards the wider public, but also to the business sector and the owners and managers of capital. It is a crucial function for any government to be able to present policies that are considered coherent, effective and legitimate. This is not only about short-term electoral survival. In a capitalist economy, legitimation is also directed towards the owners of capital, so as to ensure a sufficient level of investment and avoid capital flight. Wolfgang Streeck describes how:

“the political economic system must legitimise itself (..) not only among the population, but also on the side of capital-as-actor (no, longer just machinery) – or, more precisely, among the profit-dependent owners and managers of capital. In fact, since this is a capitalist system, their expectations ought to be more important to its stability than the capital-dependent population.” (Streeck, 2014, 21)

Following Streeck, the legitimating function remains one of the central tenets of any macroeconomic policy. Only if the capitalist class are satisfied can an economic policy be successful, and the language, and practical implication, of economic theory as a way of persuading the global financial markets becomes a key priority of economic policy. Here, the neoliberalism policy paradigm, supported by the techniques of mathematicised neoclassical economics, has allowed for the formulation of legitimate policies in a period of the resurgent power of capital (Watson, 2014).

Serious problems arise, however, when one speaks of the ideological function of economic theories in the broader political economy. Functional explanations have a well-deserved dubious standing within social science, as demonstrated most especially by Jon Elster (1979). And it is true that claiming a certain function of an idea is no explanation of its rise. But as Elster points out, it is possible to speak of a functional explanation if a credible feedback effect can be found – in other words, if the function of a social phenomenon leads to a positive feedback effect, this can, at least in part, explain the rise of the phenomenon.

The interplay between economic ideas and politics seems to present a clear case of such a positive feedback scenario. I do not claim that innovation within economic thought arises out of its use for wider society (at least not primarily). But even though Adam Smith had exclusively internal motivations to formulate *The Wealth of Nations*, it is still the case that a) he was reacting to real economic transformations going on around him, especially the rise of a capitalist bourgeoisie, and b) his later popularity and widespread subsequent political use has everything to do with the usefulness of his theories to that increasingly powerful capitalist bourgeoisie. The feedback loop of attention, dissemination and funding for ideas that fit strong social forces seems hard to deny. Furthermore if we, for example, look at the transition from classical political economy to marginalism, it cannot be grasped as a simple case of scientific progress – the marginalist theories did have a more elegant solution for the calculation of prices, but on the other hand offered no way of conceptualising production or different

forms of capital as money, land and machinery. The difference on a scientific level basically came down to an unsolvable ontological difference on utility or labour as the ultimate basis for value calculation. One does not have to reduce Jevons or Walras to direct agents of capital to see the subsequent success of marginalism and neoclassical economics as being tied to the politically problematic issues connected with the labour theory of value, and the political use of an idea of labour and capital each being paid their marginal value on a free market (Heilbroner, 1985; Watson, 2005, 2011).

4.6 Organic intellectuals and elite common sense

If the above section answered the “how” question of the political influence of economic ideas, this section will answer the “who” question. Or, what sort of actors are necessary for a set of ideas to be taken forward, institutionalised and naturalised as hegemony.

Here, I use the Gramscian notion of common sense; that is, the set of ideas that are taken for granted and accepted as unproblematic truth. Evan Watkins describes this situation in this way: “Common sense also becomes a material force insofar it imposes parameters of constraint on what is possible politically in any given moment”(Watkins, 2011). But where Gramsci’s notion of common sense is connected to popular common sense, the same dynamic can be observed in elites. Economic ideas and paradigms, when they enter the political realm, are rarely directed at a popular audience, but rather at the level of the decision makers, managers, bureaucrats, ideologues and administrators who make up the governing and ideology-producing sector of society. If such an economic program or paradigm can be formulated and is supported by sufficiently powerful social forces in a society, it can take the form of an “elite common sense”⁷.

⁷ The idea of elite and popular common sense is to a certain extent analogous to Vivien Schmidt’s distinction between *communicative* and *coordinative* discourse (Schmidt, 2011).

Of course, the exact character of who is included and excluded from the ruling coalition of the elite is specific to the formation of the concrete historical bloc. In practice, this means parties that have access shape government policy within the current system, and the organised form of the most important capital factions that have the ability to influence or block state policies. However, in order to form a historical bloc at all, ideas and ideology are also crucial to ensure internal cohesion and create political consensus in a world where the future is uncertain.

Here, economists and secondhand dealers of economic ideas⁸ can be viewed as organic intellectuals in the Gramscian sense, providing the ideas that help to formulate a common understanding of the character and problems of the economy, as well as the potential instruments of reform. Gramsci describes this function in class terms, as follows: “Every social group, coming into existence on the original terrain of an essential function in the world of economic production, creates together with itself, organically, one or more strata of intellectuals which give it homogeneity and an awareness of its own function not only in the economic but also in the social and political fields” (Gramsci, 2003, 135). All elite groups need a set of ideas and instruments to create consensus and coherence. This role of internal cohesion is played by different groups in different contexts – by industry groups, independent think tanks, academic economists or foreign experts.

⁸ The idea of secondhand dealers is from (Hayek, 1949). The importance is not necessarily on who has certain ideas first, but on who promulgates them in institutional and political settings. In this way, what I need to look for is not the original thinkers, but the most important promulgators who spread ideas through national and international contexts.

5. METHODS AND METHODOLOGY

- *The validity of economics would matter less if it were not used constantly to implement courses of social action in the purposed interest of 'efficiency', often without specifying in detail what the benefits might be and for whom.*
 - o Avner Offer, *The Nobel factor* (2017)

The articles that make up this thesis employ a range of different methods, but they are all collected under the same broader methodological approach. Article 1 is a theoretical intervention in the debate on crisis and economic ideas in IPE. Article 2 and 3 represent contextualised intellectual history on the development and significance of different aspect of neoliberal economic theory, with special emphasis on the issue of the state. Articles 4 and 5 are case studies on the nexus between policy and ideas in Denmark. Paper 4 represents a historical rendering of the embedding of neoliberal economic ideology in the Danish context, based on historical document analysis, while article 5 is a synchronic network study, describing the place of academic economic experts in the wider power elite in Denmark.

While each of these individual articles can be read within the broad methodological and theoretical agenda outlined in section 2 and 4, they cannot be seen as constituting one unified research project. Rather, they represent different interventions in the ongoing scholarly debate on the influence of economic ideas and ideology in the broader process of change in the political economy. While the lack of a fixed and overarching thesis framework is a product of the format of the thesis, where the production and revision of individual articles leaves less space for foundational, methodological reflection, the approach also has merits. The debate around the influence of ideas, interest and institutions is as old as IPE (or Marxist theory) itself, and while it has led to a wide range of interesting scholarship, it has left few satisfying conclusions on the ultimate relation between ideas and material reality (unless one subscribes to idealism, or base-superstructure-Marxism). Instead, the model of

individual articles allows for a range of different entry points. Thus, the articles take theoretical text (articles 2, 3), institutions and networks (articles 4, 5), or political processes (article 1), as the entry point into the scholarly debate, and thus hopefully delivers interesting interventions, without attempting to provide answers to all of the foundational theoretical questions.

5.1 Social network analysis

The influence of economic ideas on policy is inherently difficult to track and document (Campbell, 1998; Tønder, 2010). As policies are always implemented by individuals and institutions in the context of a multiplicity of influences, isolating one factor's impact can be extremely hard, if not impossible – especially as the influence of ideas, theories and ideology is always dependent on the support of powerful actors and of institutional and structural conditions conducive to their implementation. Attempts have been made to isolate the effects of ideas by equating ideas with the positions of certain actors, conceptualised as trained neoliberal economists in the IMF (Chwieroth, 2007) or independent policy experts (Lindvall, 2009). While this attempt at holding all else constant, and focussing on the effect of the presence or non-presence of certain actors on subsequent policy decisions does yield seemingly hard quantitative evidence of effects, the attempt cannot help but seem methodologically naïve. The influence of ideas is always dependent on a range of other concurrent factors, and attempts at isolating them seems futile.

Instead of engaging in a sterile attempt to isolate the effect of ideas, the papers instead try to understand the concrete historical, institutional and social context in which ideas take effect. The ambition here is not to make *ceteris paribus* estimation of the influence of economic ideas, but rather to uncover the infrastructure through which ideas are disseminated and coordinated. In order to do this, article 5 has employed social network analysis. In contrast to traditional regression based statistics, the aim of SNA is not to measure the (causal) effect of one variable on another, but rather to describe the connections and relations between actors in a network (Borgatti, Everett, & Johnson, 2013; Scott,

2000). The aim of SNA is thus not so much to isolate and quantify the effects of A on B, but rather to describe and analyse formal and informal social structures through a range of quantitative tools. As Hubert Buch Hansen (Buch-Hansen, 2014) notes, this approach is less connected to a positivist hypothesis-testing methodology than standard quantitative methods, and it is therefore more amenable to the sort of framework applied in this thesis. Recent examples of network analysis of this kind can be found in the neo-Gramscian inspired work of the Amsterdam School on the corporate elite networks on the European scene (Buch-Hansen, 2014; Van Apeldoorn, 2000; Van Apeldoorn & De Graaff, 2014, 2015), or the C. Wright Mills inspired analysis of the Danish power elite carried out by Anton Grau and Christoph Ellersgaard (Ellersgaard & Larsen, 2015; Larsen, 2015; Mills, 1999).⁹

5.2 History and context

The thesis also tries to understand the role of economic ideas in the neoliberal period by historical comparison with the earlier embedded liberalism of the post-war era (articles 1 and 4) and with the golden era of classical liberalism in the 19th century (articles 2 and 5.). Here, I draw inspiration from the methodological work done in recent decades within intellectual history, especially in the history of political thought. An important figure here is Quentin Skinner. . Beside his specialist work on Machiavelli and Hobbes, Skinner has written profusely on methodology, and the need for contextual understanding in the history of political theory.

Based on the works of Wittgenstein (2010) and Austin (1975), Skinner sees texts as essentially a form of speech act; that is, as intentional interventions in debates. As such, political texts cannot be seen as ephemeral entities, but rather as attempts to accomplish something in the debates at the time of their writing. In order to understand the meaning of political text and the beliefs held in them, it is therefore

⁹ The data for article 5 is taken from the datasets collected by these researchers.

necessary to understand the polemical context in which it is situated (Skinner, 1969, 2002). The concept of historical context is further developed by Marxist historian and political scientist Ellen Meiksins Wood under the framework of the “social history of political thought”. In this approach. Wood expands the notation of context to also include social relations and the macroeconomic structure. The notion of contextualisation is developed into an analytical model in article 3, but the methods from intellectual history have informed the historical analysis of texts throughout the thesis.

5.3 History and theory

The articles in the thesis are situated at the intersection of theory and empirical studies. As such the ambition in all articles but article 5 (which does not contain a historical element), is to use the meeting of theory and the empirical world to develop our understanding of both. The key element in this connection is history. By developing theory in engagement with the historical record, as attempted in article 1, the historicity and contingency of all the theoretical models are emphasised, and the necessity of historical contextualisation of any sort of theoretical claims about the world are stressed. At the same time theories of the world are themselves embedded in historical processes, and the uncovering and interpretation of the historical background of any sort of ideology or set of ideas is key to developing an understanding of it in the current moment. The discussion of the intellectual history of neoliberalism and economic liberalism on a broader level, as employed in articles 2 and 3, should thus not be seen as an exercise in history for its own sake, but rather as an attempt at using history to understand the present and potential future form of neoliberalism. Despite the historical content in much of the material in the thesis, it thus remains a work of political economy, rather than of history. The ambition remains here to use the historical record as a way of developing a historically informed analysis of the present.

6. LIMITATION AND CONTRIBUTIONS

- *Honourable errors do not count as failures in science, but as seeds for progress in the quintessential activity of correction.*
 - o Stephen Jay Gould , *Leonardo's Mountain of Clams and the Diet of Worms* (1998)

It might be proper to discuss what sort of topics and literatures are consciously *not* covered in the thesis. Outside geographical and topical choices, such as not dealing with neoliberalism in the developing world, or on the specific dynamics of financialisation, there are two main demarcations that characterise the issues not dealt with.

On the one hand, little attempt is made to isolate or measure the exact causal impact of economic ideas, neoliberalism or economic experts. Surveying the sort of qualitative (Lindvall, 2009) or quantitative (Chwiroth, 2007, 2009) attempts at this, it seems that the sort of heroic assumption needed to reduce the complex interrelation between ideas, institutions and actors to variables in an equation or two-by-two matrix greatly reduces the utility of the eventual study.

On the other hand, there are large parts of the more sociological or philosophical literature on neoliberalism that are also passed over. The focus of the thesis is very much the classical political territory of macroeconomics and state policy and the specific elite dynamics connected with economic ideas. This means not engaging with the literature on the everyday practices of IPE that are focused on the daily practices that make up a large part of the economic structures and changes we see (Hobson & Seabrooke, 2007), as well as the largely Foucauldian literature on neoliberalism and governance, focusing on the processes of subjectivisation and the other (more nuanced) effects of neoliberal forms of power at the individual level or in educational or juridical institutions (Flew, 2014; Foucault & Gordon, 1980; Lemke, 2001; Read, 2009).

While large parts of the thesis are concerned with text, and so are operating at the level of discourse, the thesis should also not be seen as a work of discourse analysis. This is, of course, because the articles do not employ the methods of discourse analysis proper, as developed by Foucault (Foucault & Gordon, 1980), Laclau & Mouffe (Laclau & Mouffe, 2001) or Fairclough (Fairclough, 1985). But it is also an indication that the ambition of the thesis is not in the direction of the linguistic and rhetorical close-reading of text, which is most often the ambitions of discourse analysis. When the analyses presented in the thesis uses the language of ideas, rather than discourse, it is because the focus is on the coarse-grained mechanics of the theories and ideologies under analysis rather than the subtle nuances of language and textuality.

This is not to say that the perspectives outlined above could not have yielded interesting and insightful studies, but only that my vantage point has taken the work elsewhere.

6.1 Contributions

Within these limitations, I will claim that the thesis makes several contributions to the study of neoliberalism and economic ideas. While each article has a statement of its individual contribution, it is also possible to draw out some more general contributions that cuts across the works of the thesis. I will try to outline three here.

The first is in providing a historical depth to the discussions around economic ideas in IPE. In *Ruling the Interregnum*, this is done by using the material historical record of the 20th century as a way of reinterpreting the relation between economic crises and ideational change. In *Economic Liberalism and The State*, the investigation of 19th century classical liberalism is used as a way of criticising contemporary understandings of neoliberalism, while *Beyond States and Markets* uses historical comparison to show how the scepticism towards the democratic rule of the economy that was displayed in 1970s macroeconomic

debates had roots that were centuries-old. Especially in providing a timeframe that stretches beyond the last half of the 20th century, the thesis contributes to a growing understanding, promoted by Thomas Piketty (Piketty, 2014), amongst others, that the post-war years, with low inequality and the growth of the welfare state, cannot be seen as the normal state of capitalist society. The rising inequality and marginalisation experienced in recent decades might rather signify a return to the more ‘normal’ dynamics of capitalist society.

Secondly, the articles of the thesis contribute to the work of developing a materialist framework for the study of ideas. This contributes to a more nuanced understanding of ideas and ideology within the Marxist tradition, with especial focus on the crucial role of ideology on an elite level, and helps to provide a language for a nuanced investigation of economic ideas that does not, explicitly or implicitly, proscribe causal primacy to ideas, but recognises the complex interplay between ideas, institutions and social forces. Such an approach is demonstrated in the empirical work on Denmark in *Neoliberalism with Scandinavian Characteristics*. The Marxist approach has the advantage in that it connects to a broader theory of capitalism, and the dynamic as well as crisis-prone tendencies of capitalist economies. This gives a perspective on social change that transcends the focus on ideas, something that is further strengthened by the (neo)Gramscian focus on broader social forces. Such an approach to neoliberalism allows not only for a description of the success of neoliberalism in recent decades, but also to look at the possible contradictions and crisis tendencies that are inherent in the project, and what possible alternatives can emerge, as demonstrated in *Ruling the Interregnum*.

Thirdly, the thesis points the focus on ideational development within elites and powerful networks. In a world with a growing concentration of power in the hands of a few individuals, and with increasing involvement of money in politics, the study of formal institutions and procedures increasingly needs to be supplemented by the study of informal networks. The employment of network analysis, as in *Embedded Expertise*, to describe such informal networks within the power elite and the placement of

organic intellectuals within these networks presents one such attempt, while the historical investigation of networks of intellectuals, think tanks and donors represents another, as in *Beyond States vs. Markets*. If current developments continue, such forms of research will only be more important in the future.

RULING THE INTERREGNUM

ECONOMIC IDEAS AND AUTHORITY IN NON-HEGEMONIC TIMES

Abstract

With Brexit, the election of Trump and the rise of anti-establishment parties to the left and right, the neoliberal ideas of the global political elite have lost much of their legitimacy. While the hegemony of neoliberalism is severely challenged, no clear alternative has yet emerged. This paper investigates the current state of economic theory and governance through the concept of interregnum. While IPE theory has a set of different theories about periods of hegemony and paradigmatic stability, the periods between stable hegemonies are distinctly undertheorized. This is especially problematic as economic history shows that these periods of interregnum can span decades. The paper will argue that the notion of interregnum is distinct from the concept of crisis, and the paper develops a theoretical concept that describes periods of interregnum through four key criteria: 1) Absence of a stable elite consensus, 2) Institutional continuity, but decreased effectiveness of key institutions, 3) Realignment of social and class forces, and 4) Presence of competing economic strategies within the elite. The concept of interregnum is employed to analyse the changes in economic ideology that followed the breakdown of the post-war Keynesian consensus in the 1970's as well as the current aftermath of the 2008 crisis.

1. INTRODUCTION: THE LONG AFTERMATH OF THE 2008

CRISIS

Ten years after the financial crisis, the Western world is in a situation of political turmoil and instability unknown for decades. At the same time, there is no clear sign of any new order emerging out of the chaos and turbulence.

On the contrary, since 2011, we have seen a wave of anti-establishment discontent from the left and right. The rise of left and right anti-establishment figures, from Donald Trump and Marine Le Pen to Pablo Iglesias and Jeremy Corbyn, have meant a significant weakening of the political establishment throughout the developed world. At the same time, the global economic elite seem to harbour growing doubts about the economic orthodoxies of neoliberalism. The annual summit of the World Economic Forum in Davos has begun discussing inequality and political instability. Even traditional bastions of orthodox economic ideas such as the International Monetary Fund (IMF) and the Organisation for Economic Cooperation (OECD) are warning against inequality and advocating greater public spending. Neoliberalism might not have lost its position in the day-to-day formulation of policy, but the days of undisputed common sense seem to have gone.

This double situation is mirrored in the approach to the crisis in the debates within the international political economy (IPE). In the years immediately following the 2008 financial crisis, there was widespread anticipation that it would mean the end of the ideational hegemony of economic liberalism that had characterised the period since the 1980s.

The first wave of scholarship on the crisis tended to emphasise this expectation: As the material and ideological foundations of neoliberalism were shattered, we were witnessing the beginning of the end of neoliberal hegemony (see Helleiner, 2010; Kotz, 2009; Krugman, 2009; Peck, Theodore, & Brenner,

2010; Stiglitz, 2008). The idea of the collapse of neoliberalism was based on the apparent contradiction of the doctrines by the massive government interventions with bank packages and the creation of state credit and guarantees. This trend was further strengthened by the apparent return to Keynesian countercyclical policies in many countries in the years immediately following the crisis (Eatwell & Milgate, 2011). However, this short ‘Keynesian window’ of 2008-9 quickly closed. As it became clear that the largesse shown in the bailout packages to the banks would not be shared with the unemployed, a new dominant narrative emerged: the persistence of neoliberalism, despite the crisis. The main theme of the literature now shifted to explain the persistence, or non-death of neoliberal ideology and policies (Cahill, 2014; Crouch, 2011; Mirowski, 2013; Schmidt & Thatcher, 2013)

This paper offers an alternative to both these waves of literature through an engagement of Gramsci’s concept of the *interregnum*, from the oft-cited but seldom analysed quote about the situation where ‘the old is dying, but the new cannot be born’. By abandoning the expectation that we have already seen the resolution of the crisis, the article will use the concept of the interregnum to describe the current era as one of sustained political crisis and confusion, with the old hegemonic equilibrium shattered, but no new hegemonic project able to take over. A situation parallel to the interwar years where Gramsci was writing and the instability of the 1970’s.

1.1 Transcending the ‘punctuated equilibrium’ model

The concept of the interregnum offers a new way of looking at the impact of crisis on structural change in the political economy. Within IPE, the idea of crises as turning points—whatever the concrete theoretical formulations—is generally associated with a model of punctuated equilibria, a model borrowed from palaeontology (Gould, 1972). The central idea behind this metaphor is that history does not move forward at a steady pace, but instead in plateaus of stability punctuated by short periods of rapid change in which the conditions are created for a new equilibrium to emerge. A similar model can

be seen in Thomas Kuhn's work on scientific paradigms, where periods of stable paradigms allow normal science to go on, punctuated by sudden periods of scientific revolutions (Kuhn, 1996 [1962]).

This model can be found in several theoretical traditions of political economy. In the Marxist and regulationist tradition, capitalist crises stand as central pillars in the transition from one mode of regulation or form of capitalism to another (Aglietta, 2000; Boyer, 1990; Brenner, 2003; Bruff & Horn, 2012; Glyn, 2007; Harvey, 2007, 2010; Jessop, 1990). In the institutionalist tradition, especially historical intuitionism, there has been a decade-long theoretical debate about the role of crisis-driven sudden change and forms of incremental change (Blyth, 2002; Boas, 2007; Campbell, 2010; Hall, 1993; Mahoney & Thelen, 2010; Pierson, 2000a, 2000b).

There are, however, some problems with the model of punctuated equilibrium. In its very nature, *punctuations* must constitute relatively short and unusual periods. This sometimes happens in history—revolutions, coups, or war can really be 'weeks where decades happen', where regimes change overnight. When it comes to studying the impacts of economic crises, however, this does not seem to be typical. Instead, the punctuations between periods of equilibria seem rather long. It was not until 1945 that the hegemony of Keynesianism found its institutional form, more than 15 years after the onset of Great Depression. Moreover, it took almost a decade from the breakdown of Bretton Woods in 1971 until the neoliberal revolution emerged in force in the early 1980s. Such periods of confusion are not trivial in comparison to the historical periods of hegemonic equilibrium: 25 years of Keynesianism hegemony in the post-war era, 25 years of neoliberalism before the 2008 crisis. What follows the breakdown of ideological hegemony generally does not seem to be a fully-fledged new system of hegemony. Instead, we see a prolonged period of confusion and political chaos. It is these periods of confusion that can be labelled an interregnum. These periods of interregnum cannot be conceptualised as mere transitions but must be understood as periods in their own right.

By engaging with Gramsci's concept in its theoretical and historical context, this article will try to develop a systematic concept of interregnum and demonstrate how this can cast new light over the historical shifts between different periods of hegemonic equilibrium.

An interregnum may be defined as a period of uncertainty, confusion, and disagreement among the dominant elite, and where former ideologies, while still having institutional power, are losing traction, leading to disagreement and disorientation. In such a fluctuating landscape, governments still must react. The orthodoxies of former times are still dominant in the bureaucracies and apparatuses of the state, but at the same time, the traditional institutions are no longer as effective as they once were.

In the periods of interregnum, several ideologically conflicting hegemonic projects struggle for potential hegemony, each with its own solution to the crisis of the previous system. Despite their historical weight, these periods of interregnum are distinctly undertheorized in the literature. Might periods of institutional and ideational confusion be characterised not only by an absence of hegemony and consensus but also have dynamics that need to be appreciated on their own terms? Instead of the tacit assumption that periods of stable hegemony are the 'normal' state of capitalist economies, we might have to accept that we inhabit a world where hegemonic equilibrium is not the norm.

While drawing on the substantial literature on Gramsci's notion of hegemony and crisis that have been developed in recent decades, this article nevertheless makes several contributions to the literature.

Primarily, the concept of the interregnum offers a new theoretical tool for understanding the current conjuncture and the lengthy drawn-out processes that generally follow the breakdown of an ideational hegemony, specifying some common dynamics that have characterised such periods historically. In doing so, the article also seeks to redefine and nuance the idea of 'punctuated equilibrium' that dominates much of the thinking on crisis and regime change held within both critical and mainstream IPE.

Secondly, the article represents the first systematic attempt at operationalising the Gramscian concept of interregnum within the IPE. By putting Gramsci's definition of the interregnum in context with the broader themes in Gramsci's theoretical work, as well as later writers in the tradition, the article will argue that it is possible to develop a fruitful analytical concept of the situation of a capitalist economy without functioning ideological hegemony. The concept of the interregnum developed out of this process speaks not only to the neo-Gramscian literature but broader questions in the historically focused parts of the IPE. By focussing on the temporally substantial periods of hegemonic struggle and the unsuccessful hegemonic projects, the concept draws attention to the openness and contingency of historical process, rather than the teleological perspectives that can easily follow when only telling the story of the rise of successful hegemonic projects without considering the alternatives.

The article uses the history of the capitalist core countries of the West as the medium through which it develops the conceptual work. This does not imply a claim to offer a real historical reinterpretation of the 20th century of these countries, however, as this would be beyond the scope of the article. Neither should the historical reflections be seen as a proper comparative case study, but as instructive historical examples to illustrate the conceptual points. The article is structured through a look at the role of crisis in critical IPE literature and the problems in the widely used metaphor of 'punctuated equilibrium' in section 1. Section 2 outlines a theoretical model of interregnum with inspirations from Gramsci, as well as Jessop and the Neo-Gramscian tradition. Section 3 will then discuss the alternations between interregnum and hegemonic equilibrium in the 20th century. Section 4 will discuss the analytical consequences of looking at the post-2008 world as an interregnum, before a conclusion in section 5.

2. A THEORY OF THE INTERREGNUM

The notion of interregnum is originally a monarchical term denoting the gap periods between the death of one regent and the ascension of the next. In a theoretical context, Antonio Gramsci first developed the idea. In his *Prison Notebooks*, as a part of his analysis of the state and creation of hegemony, he speaks of the interregnum as defined by a ‘crisis of authority’:

If the ruling class has lost its consensus, i.e. is no longer “leading” but only “dominant”, exercising coercive force alone, this means precisely that the great masses have become detached from their traditional ideologies, and no longer believe what they used to believe previously, etc. The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear. (Gramsci, 2003, 276)

Gramsci’s statement has been quoted widely in the literature, but, in contrast to other Gramscian concepts such as Hegemony or Fordism, the idea of the interregnum has rarely been discussed in depth within political economy literature. The best attempt in this direction has probably been made by Stephen Gill, who briefly touches on the concept in his works on disciplinary neoliberalism and organic crisis in the 1990s (Gill, 1995a, 1995b)

In recent years, however, several writers have started to use the concept of interregnum to characterise the current moment. In a 2010 article on the perspectives of a new Bretton Woods system, Eric Helleiner uses the concept in a model of the establishment of a new global financial system (Helleiner, 2010). In 2012, Zygmunt Bauman employs the concept to denote the general condition of crisis in Western societies caused by economic crisis, climate crisis, and migration (Bauman, 2012), while

Wolfgang Streeck in his recent *How will Capitalism End?* (Streeck, 2016) talks of how we are in a ‘post-capitalist interregnum’, signalling the coming breakdown of the capitalist order.

While these authors all quote Gramsci, there have so far been few attempts to situate the concept within a broader context of Gramsci’s works. By putting Gramsci’s definition of the interregnum in context with the broader themes in his theoretical work and political time, as well as later writers within Gramscian and neo-Marxist theory, this article will argue that it is possible to develop a fruitful analytical concept of the situation of a capitalist economy without a functioning ideological hegemony.

The aim of the article, however, is to use and develop the Gramscian concept to describe the historical situation, and as such, I do not claim to provide the only or, indeed, the authoritative reading of the *Prison Notebooks* or Gramsci’s original political and theoretical intentions.

2.1 Organic crisis

The concept of the interregnum in Gramsci’s work is tied to the idea of *the organic crisis*. This is the notion that the ruling class has lost its ideological and political legitimacy and is, therefore, unable to provide the moral and ideological leadership that can secure hegemony. The organic crisis is not only an economic crisis but a wider political and ideological crisis of legitimation that reveals ‘incurable structural contradictions’ of the political order (Gramsci 2003, 176). The interregnum can thus be seen as the political form of an organic crisis.

An interregnum does not imply lack of order, but rather a semi-ordered system. There is no total confusion out of which emerges a new fully formed system of hegemony but, instead, a period of competition between different strategies backed by different alliances, potential or realised, of social forces. The concept of interregnum points to the natural integration of periods of greater confusion in

the functioning of capitalist economies. Stuart Hall (1983) lays out the difference between the organic and conjunctural aspects of crisis. Conjunctural aspects of crisis imply urgency. It is a state of exception where a political order is either able to overcome the crisis or is thrust into terminal decline. In contrast, a period of organic crisis has no such urgency or any sharp temporal boundaries. While the period is characterised by the dysfunction of central institutions that previously managed to keep economic and political contradictions in check, there is no necessary drive towards a solution of the situation, as long as several viable political and economic strategies exist. This process is not necessarily fast; Gramsci describes it as lasting for decades.

A crisis occurs, sometimes lasting for decades. This exceptional duration means that incurable structural contradictions have revealed themselves (reached maturity), and that, despite this, the political forces which are struggling to conserve and defend the existing structure itself are making every effort to cure them, within certain limits, and to overcome them (Gramsci 2003, 400)

While the organic crisis is often tied to economic troubles, there is no mechanistic connection between the two. An economic crisis might translate into political crisis, but it is also possible for the system to overcome an economic crisis within the hegemonic strategy. It is quite possible to speak of a relatively significant economic crisis in the early 1990s in the US and Europe or after the Dot-com bubble in 2000 without triggering any political crisis. At the same time, the growth and unemployment rates of the 1970s, which plunged the political ruling elites into a deep crisis of legitimation, would be considered magnificently fine in the 2008 world or even in the 1990s for most countries.

The 'morbid symptoms' Gramsci points to as characterising the interregnum are associated with the loss of faith in the governing ideologies and thus the loss of the main legitimating instruments available to the governing elite of the state. The loss of ideological cohesion can be seen not only in popular

ideological disaffection, but also inside the dominant ‘political forces which are struggling to conserve and defend the existing structure’ (Ibid, 400). Such a twin legitimization crisis, where the political elite faces not only loss of public support but also internal ideological divisions, leads to deep political dysfunction. In contrast, a well-functioning political order is capable of small scale adjustment to changing circumstances, within the acceptable bounds of the ruling ideological hegemony—rules that are effectively de-politicised. However, when the political elite is weakened and fractured, such low-tension, de-politicised policy changes becomes harder, and the system faces a situation of gridlock as several competing strategies offer differing solutions, with none of them able to emerge as hegemonic.

2.2 Gramsci and the interwar Interregnum:

In Gramsci’s work, we can find the kernel of an analysis of the ongoing unravelling of the liberal world order that emerged out of the First World War riddled with crisis.

Gramsci never looked upon this liberal economic order as merely the necessary political superstructure of capitalism but, instead, as a specific state form or political regime. In his critique of ‘economism’ as a reductionism that ignores the political and ideological changes, he describes the laissez-faire system that dominated the pre-war capitalist world as an inherently political and ideological form of state power that was an expression of a certain way of regulating the capitalist order via the state as an apparatus

Laissez-faire too is a form of State ‘regulation’, introduced and maintained by legislative and coercive means. It is a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts. (Gramsci 2003, 371)

In this time, however, this order was in the process of disintegration. His fragment of the interregnum, written in the notebooks from 1932-34, is formulated on the background of the inability of this pre-war liberal order to establish a stable hegemony in the interwar years—alienated from the mass of the population and torn with internal division, the ruling class were unable to regain leadership of the

situation (Ibid. 211). In this situation Gramsci noted ‘highly favourable conditions’ for the Marxist movement he was a part of, but he also outlined other alternative solutions to the crisis-bound system.

One of these could be seen as the rise of fascism or Caesarism. Caesarism (Ibid. 220ff) is described as resulting from a situation in which the equality of competing class forces means that no coherent historical bloc can be constructed.¹⁰ In such a situation of deadlock, a charismatic individual can assume power by way of reconfiguring class forces and serving as a compromise between otherwise antagonistic forces.

The analysis of Caesarism is evidently aimed primarily at the rise of Mussolini and fascism, although Gramsci was not able to describe this directly due to prison censorship. However, he does include other autocratic figures such as Napoleon and Bismarck in the category.

Caesarism (...) expresses the particular solution in which a great personality is entrusted with the task of ‘arbitration’ over a historico-political situation characterised by an equilibrium of forces heading towards catastrophe. (Gramsci 2003, 219)

In the US, Gramsci saw another potential future project emerging in the form of Fordism. With the term Fordism, originally probably used as a way of avoiding censure of terms like advanced or late capitalism (Bonanno, 2017, 22), Gramsci denoted the construction of a new form of industrial organisation of capitalism, where mass production was combined with mass consumption and high wages, as well as a new centrality of finance capital, instead of the old capitalist plutocracy (Gramsci 2003, 313). These technological and organisational developments were coupled with a new political regime with a much larger role for the state as a guarantor of a stability unknown in the earlier, laissez-faire form of capitalism, primarily through full employment policies (Bonanno 2017, 19).

¹⁰ Gramsci states that “Caesarism (...) expresses the particular solution in which a great personality is entrusted with the task of ‘arbitration’ over a historico-political situation characterised by an equilibrium of forces heading towards catastrophe” (Gramsci 2003, 220)

Posthumously, it is clear to see some of the outline of the embedded liberalism of the post-war period in Gramsci's writing on Fordism. The consolidation of the post-war world order did not materialise before his death in 1937, and in his notebooks, he leaves open 'the question of whether Americanism (Fordism) can constitute a historical epoch' (Gramsci 2003, 279).

While he outlined three different solutions to the crisis of the interwar interregnum, there were also clear differences for him. He saw the Marxist labour movement ultimately overcoming the contradictions of capitalism while the other hegemonic projects he outlined as potentialities in his present—Fordism/Americanism and Caesarism/Fascism—did not do this. He offered, instead, a reconfiguration of the capitalist economy through the means of the state. It is this later version we will develop further in the following.

2.3: Hegemonic projects

The concept of interregnum is inevitably tied to the idea of hegemony, that is, the ability of the ruling class to rule through the consent of the ruled.

While a rich literature on the concept of hegemony exists (Anderson, 2017; Cox, 1983; Laclau & Mouffe, 2001; Morton, 2011; van der Pijl, 1989), this paper will follow Bob Jessop's development of the Gramscian idea of economic hegemony as laid out in *The Future of the Capitalist State*. Here he states that 'economic hegemony exists where a given accumulation strategy is the basis for an institutionalised compromise between opposing social forces'. This project involves 'constructing an imagined "general economic interest"' (Jessop, 2002, 30).

To establish economic hegemony, whether by factions of capital or cross-class compromise, it is necessary to formulate a *Hegemonic Project*, not only to provide an accumulation strategy, but also a 'State Form', that is, a notion of the regulation and form of the state, including its role in the broader economy (Jessop, 2002, 2007; Mulvad, 2015). In this context, one can further define a hegemonic

project as requiring a coherent economic paradigm or set of ideas for governing the economy combined with a set of policies capable of translating these ideas into political practice and enforce them despite opposition. (See tables C and D) In modern liberal democracies, this means that the ability to govern is tied to the ability to mobilise sufficient electoral backing as well as consent from the most important social forces. As Wesley Widmaier states in his recent book *Economic Ideas in Political Times* (Widmaier, 2016), the early phase of such hegemonic projects is often characterised by so-called ‘interpretive leaders’ who can formulate a coherent project that embodies ‘the general economic interest’ on a normative and political level. Examples are Keynes in the 1930s or Friedman in the 1960s. Later, if the project is successful, these overall normative ideas become institutionalised into new sets of institutions, as the Bretton Woods-system, or a reconfiguration of existing institutions, as the Washington consensus under the neoliberal period.

Hegemony, of course, does not mean the total consensus of society. Any modern capitalist society has anti-systemic, oppositional forces intent on deep structural changes. However, as long as these are kept under control, and there is a consensus among a governing elite, with a sufficiently broad social basis, this does not hinder the stable running of the system. For Gramsci, the production of hegemony is never ‘free’ for the dominant groups. He describes how ‘*the fact of hegemony presupposes that the interests and tendencies of those groups over whom hegemony is exercised have been taken into account, and that a certain equilibrium is established*’. (Gramsci, 2011b, 183) As such, the dominant group must be given something, however small, to secure acquiescence.

There are generally two ways of controlling these dissenting forces. Either through co-optation, where they are subsumed under the hegemonic consensus, or marginalisation, where they are effectively excluded from power.

Co-optation can be seen as the involvement of trade unions in policy formation in most Western European countries in the post-war era, or in Scandinavia today. Marginalisation can be seen in the

exclusion of the communist parties of southern Europe in the same period, or in the attitude of trade unions in most Western countries in the neoliberal era. As long as one of these mechanisms are in place, it is possible to secure a state of consensus amongst the governing elite.

2.4 Elites and ideology

A problem in the Gramscian formulation of the ‘crisis of authority’ is that it is traditionally conceptualised only as a dialectic between the popular masses and the ruling class. However, across large parts of the neo-Gramscian tradition, especially its Amsterdam school, there are also elite dynamics inside the ruling bloc with different factions of capital and other groups organising a coherent bloc through powerful networks. (Pijl, 1984; Van Apeldoorn, 2000; Van Apeldoorn & De Graaff, 2015)

The question of the ruling elite leads us to the question of ideology. In the Marxist tradition, the question of ideology is often framed in terms of persuading the general population of the legitimacy of the system (Eagleton, 2007; Therborn, 1999). This does not exhaust the function of ideology, however. Elites also need ideas and ideology to ensure internal cohesion. For navigating in a world in which the future is uncertain, it is necessary to form a historical bloc. What is important in this context is that we are not just looking at popular common sense, as laid out by Stuart Hall (S. Hall, 1983), but also an elite common sense, a constructed consensus around a set of ideological beliefs the acceptance of which forms the basis of coalition building.

The acceptance of the existence of elite common sense means the denial of the existence of an internal secret sphere of cynical reasoning where only profits and interest reign. There is no neoclassical rational actor inside the global capitalist class, only politically mediated actions. The exact character of who is included and excluded from the ruling coalition of the elite is specific to the formation of the concrete historical bloc. In practice, this means that the elite is comprised of parties that have access to shape

government policy within the current system and the organised form of the most important capital factions.

This situation points to the political character and importance of ruling coalitions. The elite, as employed in this article, pertains not only to the classical ruling class of Marxist theory (Therborn, 2016; van der Pijl, 1989) but also includes the state elite, experts (to the extent they are included as organic intellectuals) and possibly even labour unions. In many countries, the business community deserted the compromise bloc of the post-war period in the 1970s to raise profit rates through a more conflictual course. Economic ideas are important here as a way of expressing economic interests as universal interests of the entire society. For such a strategy to be effective, there needs to be a functional consensus of this within a stable, coherent elite representing a sufficiently broad base of social forces. Such a consensus can be brought about either through a persuasion of all relevant factions to the same economic strategy or through an exclusion of opposing social forces from access to the elite. The specific configuration of included parties/social forces in a ruling bloc is conditioned on the organisation of the hegemony. This means that, in post-war Scandinavia, central unions and the social democrats were central parts of the historical bloc,¹¹ while both unions and the communists were excluded in post-war France. The successful realisation of hegemony also means the ability of the ruling coalition to transform the institutional setup gradually in response to changing national or global circumstances.

Interregnums are periods in which such an elite consensus is lacking, and thus no hegemonic strategy emerges. A modern version Gramsci's notion of interregnum can thus usefully be reframed as a situation in which an old institutional order still exists, but is not able to deliver the previous stability. The interregnum is not defined by a *lack* of ideological projects, but rather with *several competing*

¹¹ To a certain extent they still are in the neoliberal period (Ryner, 2003; Stahl & Henriksen, 2014)

strategies that all have sufficient backing in society. As such, no single hegemonic project can gain sufficient consensus within the elite.

The period of interregnum thus occurs with the advent of a crisis of the established economic and ideological order and ends when one of the strategies for the solution of the crisis is declared the victor and a new hegemony is established. All this leads us to an understanding in which the lack of hegemony should not be understood as an anomaly but as a natural state for a capitalist society. There is no natural tendency towards equilibrium or hegemony.

2.5: Interregnum and the state

Hegemony for Gramsci involves the state and is, in this way, an essentially political concept. However, Gramsci has an expanded version of the state which includes both political and coercive institutions as well as consensual and ideological institutions. He describes the state as 'hegemony protected by the armour of coercion (Gramsci, 2003, 263). Furthermore, the state has a paradoxical placement in a wider social order. As Bob Jessop explains, it is at once only one of the institutions amongst others in the social order, and on the other hand, it is charged with maintaining the overall cohesion of the social order (Jessop, 2007, 7). It is exactly this placement of the state in the overall social order that makes it a pivotal centre in the formulation of projects to reform economy and society.

In periods of hegemonic equilibrium, the different social forces in society are in some ways fixed into place by a dominant understanding of the economy and society, and the state can thus take on a function of one among many other institutions. In times of uncertainty, however, the balance of social forces is no longer fixed, and the state can take on a pivotal role. As the state is the privileged site for a redefinition of the social order, the political issue of state power takes on an even more central role in the interregnum. While the alternations of different parties in government plays only a minor role in

periods of hegemonic equilibrium, where the main lines of political acceptability are shared amongst the governing elite, political parties become centres and actors of new forms of contention in the interregnum, as they are the potential centres for new economic strategies and centres of realignment of coalitions of social forces. This was the case with the UK Conservative Party under Thatcher in the 1970s and the US Democrats during the New Deal.

Where electoral politics are of minor importance in periods of hegemonic equilibrium,¹² the interregnum sees elections take on potentially crucial significance.

2.6: National and international levels

In the integrated capitalist world market, the roots of economic crises often emerge on a global level, whereas the political consequences play out mainly on a national level. Of course, here, the specific outcome in one country is interacting with others. This can happen through market pressures, via trade, investment flows, financial and bond markets, and so forth or political pressure through international institutions. The US government has had an especially central role in the organisation of global capitalism in the post-war period, where its Treasury Department and the Federal Reserve Bank played a key role as guarantors of both American and global capital (Panitch & Gindin, 2012; Varoufakis, 2011)

2.3 Operationalising the concept of the interregnum

As a way of operationalising the ideas outlined above, I propose an operationalised concept of interregnum in contrast to a period of hegemonic equilibrium. Sustained interregnum contains four

¹² Gramsci talks of 'a rotation in governmental office of the ruling-class parties' (, Gramsci 2001, 372)

main elements: 1) absence of a stable consensus, 2) presence of competing economic strategies, 3) institutional continuity but decreased effectiveness of key institutions, and 4) realignment of social forces. These points are outlined in Table A and they are developed further in the following.

Table A: Hegemony vs. Interregnum

	Hegemonic Equilibrium	Interregnum
Social forces	Stable blocs	Realignment
Ideas	Consensus	Disagreement
Institutions	Stable, gradual innovation	Unstable, drift, or gridlock
Hegemonic Projects	One dominant	Several competing
Political struggle	Left vs. right within consensus, extensive	Realignment within blocks, intensive
Political parties	Unimportant (consensus)	Important, sites of ideological struggle

1) Absence of a stable ideological consensus in the elite

The consensus between the main class and interest groups in society is breaking down, and hegemony cannot be maintained. The previous consensus might not have been one of active compromise and consent, as in the post-war period but could also be one of class dominance and lack of plausible alternatives as during the neoliberal hegemony. As such, the breakdown of hegemony might take the form of either the disillusionment of the ideological certainties of the previous system or, if this ideological consent was never there, the abandonment of the idea that no alternative exists.

2) Presence of several competing hegemonic projects

While a widespread idea that there is a generalised condition of crisis characterises an interregnum, there are widely differing ideas of how to get out of the crisis. This means that there are several competing projects circulating with considerable backing from powerful forces in society. This disagreement is not just along the usual axes of left and right that characterise

normal politics; it often involves a deeper realignment of the constituent parts of ruling coalitions and historical blocs.

3) Institutional continuity but decreasing effectiveness of institutions and policies

The institutions of the previous hegemonic system are still in place, but they are increasingly unable to deliver the sort of solutions to policy problems that they previously could. The presence of several competing strategies means that no single bloc or coalition can overcome resistance to its economic strategy through either marginalisation or integration of opposing forces. The ensuing gridlock and political conflict might mean that there is apparently *more* institutional stability in some areas because the gradual, piecemeal adaptations that take place in a well-ordered hegemonic period are impossible.

4) Realignment of social forces

In periods of interregnum, political struggle intensifies, and the presence of several competing economic strategies creates new political lines of confrontation. These can involve the realignment of social forces into a new ruling coalition and historical blocs with factional division within both business and labour. In these periods, political parties become more central. In periods of stable hegemony, political parties play a relatively minor role when it comes to adjusting relations of production in any meaningful way. Of course, there are various ideological positions, but among non-marginalised parties, this variation is primarily a rhetorical packaging of the same basic policies. In an interregnum period, however, political parties become the site of struggle and can be the site of the emergence of new blocs.

In contrast to periods of acute crisis, these conditions do not necessarily mean a situation of instability and fast-paced change. Some of the ‘morbid symptoms’ can give a perception of increased stability as the breakdown of consensus can cause gridlock and prevent the incremental innovation and institutional tinkering that is possible in a normal system. In this context, however, political parties emerge as more central battlegrounds than in hegemonic periods, with the struggle over different strategies often taking place within individual parties or blocs. Periods of interregnum last as long as no competing strategies manage to emerge victorious with a sufficiently strong bloc of support to exclude or marginalise alternatives.

3. HISTORICAL REFLECTIONS

The following section will describe 20th-century history through the lens of the interregnum, focussing specifically on the periods of turmoil and confusion that followed the breakdown of previous orders, moving onwards from Gramsci’s observations on the interwar interregnum as outlined in the previous sections. In this, it will be shown that both periods of hegemonic equilibrium that characterised the late 20th century—the Keynesianism of the post-war period and the neoliberalism of the post-1980s period—emerged as one of several hegemonic projects in the periods of interregnum, and that hegemonic equilibrium was re-established only after the competing projects were eliminated as serious alternatives. A schematic version of this story can be seen in table B.

Table B: Stylised timeline of hegemonies and interregnums

	-1914	1917-1939	1945-71	1971-83	1983-2008	2008-
Period	Liberal Golden Age	Interwar Interregnum	Post war Settlement	1970’s interregnum	Neoliberal period	21 st -century interregnum?
Hegemonic projects	Hegemony of classical liberalism	Fascism/Cesarism Marxism Fordism/Americanism	Keynesian hegemony	Resilient Keynesianism Neoliberalism Socialist Reformism	Neoliberal hegemony	Economic Nationalism Left populism Resilient Neoliberalism

Of course, such neat periodisation always imply a reduction of the messy reality of the historical record. Nevertheless, it seems possible to see a distinct pattern in the historical development when viewed through the lens of the concept of interregnum.

Following Gramsci's observation of his political time, it is possible to schematise a model of the interwar years as an interregnum. In the interwar period, vestiges of the liberal order were still there, having survived the destruction of the First World War and the wave of revolution. However, international institutions such as the gold standard were not functioning as before, and the order was limping along.

In this chaos, several competing hegemonic projects offered solutions to the crisis—Caesarism (Fascism), Marxism, and Fordism (Keynesianism).

Gramsci's position was still embedded in the political horizon of the Third International, with the expectation of the imminence of a terminal crisis of the capitalist order and, consequently, either the victory of the proletariat and the labour movement or the triumph of fascism. Neither of these things happened, however, and instead, a new form of capitalist regulation emerged out of the chaos, and his observations can be seen as attempts at new modes of reregulation.

The post-war period provided a solution to this for the core countries in the capitalist world. Based on a globalisation of the New Deal liberalism of the Roosevelt administration, the US state managed to construct a global economic architecture of 'embedded liberalism', where large parts of the labour movement were integrated into the governing elite in Western Europe (B. Eichengreen, 1996), while fascism was suppressed and revolutionary communism contained to a number of relatively peripheral countries. This was the hegemonic equilibrium of the post-war period.

3.1 The 1970s interregnum

The Keynesianism of the post-war period always presented a political compromise. It did not comprise a retreat to the economic liberalism and laissez-faire of the pre-war period, but it also did not involve a wholesale nationalisation, as many in the labour movement wanted (Hall, 1986). Instead, labour and capital shared in the rapid productivity gains in the form of rising wages and profits. As growth stuttered, however, the compromise and consensus started to fall apart. The economic turbulence surfaced with the breakdown of the international financial architecture of the Bretton-Woods framework in 1971 and reached crisis levels with the oil shocks in 1973 (Eichengreen, 2008). The problems had deeper roots, however, in some of the contradictions of the post-war compromise between big businesses and large parts of the labour movements. These global developments had great implications on a national level. With economic balances already under pressure and the emergence of both rising unemployment and inflation, the consensus on economic policies shattered, with different strategies emerging on the left and right of the post-war status quo.

3.2 Differing hegemonic projects

The first attempt at dealing with the crisis was to solve the problem of stagflation within the Keynesian framework, often with the added use of income policy. By attempting to control wages but leaving ownership and investment decisions in private hands, the strategy attempted to retain full employment while maintaining the balance of forces and the social compromise of the post-war era.

While income policy had been employed in some countries since the 1960s, it was especially after the oil shocks of the 1970s that these policies became an integral part of economic crisis management. This was seen in the US, Britain, and Scandinavia (Blyth, 2001; Coopey & Woodward, 1996; Glyn, 1995). It was not only centre-left governments that turned to this strategy in the early part of the 1970s: Nixon in the US did too, and so did the conservative Heath government in the UK after an initial unsuccessful attempt at liberalisation. The strategy of curbing wages through political action was ultimately deemed

unsuccessful, due to the inability of governments to reach deals with union leadership and the inability of union leadership to control membership (Coopey & Woodward, 1996).

Alternatives, therefore, emerged to the left and right. At the right, the rise of the neoliberal movement is well described. The ideas of neoliberal economic governance had been developed in the international networks of academics and political operators around the Mt. Pelerin Society since the 1940s (Cockett, 1995; Mirowski & Plehwe, 2009) but gained prominence from the large inflow of corporate money, by a new generation of business leaders, and private philanthropist in the 1970s (Hacker & Pierson, 2010; Mayer, 2016). The strategy aims to use a strict monetary policy to curb inflation and, through temporarily rising unemployment, discipline organised labour into accepting downward pressure on wages that would restore profitability in private business and, thereby, reinvigorate investment-led growth. These ideas moved from the fringes of the political world and onto centre stage from the mid-1970s with the election of Thatcher as Conservative leader in 1975 and the strengthening and radicalisation of the Republican right wing from the 1970s onwards (Blyth, 2002).

Neoliberalism was not the only economic strategy to address the crisis. On the left, a new form of socialist reformism was also on the rise through the 1970s. This was either a result of a radicalisation of demands by the main centre-left parties or a formation of new alliances on the left, allowing for the unity of centre- and far-left. The general idea of the programmes was to use a higher level of socialisation and planning as a way out of the impasse of stagflation and low-level investment. This meant that the issue of ownership of industry and the role of state planning in the economy was suddenly reopened after having been dormant since the war.

There were several different models of reformism. Some, like the Eurocommunist of Italy or Mitterrand's *Programme Commun* of the 1981 election, proposed the use of nationalisation to secure a higher level of investment in key industries, while a form of 'redistributive Keynesianism' would secure full employment (Hall, 1986). In the UK, the Alternative Economic Strategy was based on securing a

higher level of productivity growth in key industries through nationalisation and government direction of investments (Holland, 1975), while the labour movements of Scandinavia pushed for wage-earner funds as a way of gradually taking over ownership of industrial enterprises by labour, as stipulated in the Meidner plan that was adopted by the Swedish Trade Unions in 1978 (Meidner, 1980). In some countries, however, these programmes remained marginal—most notably in the US and Germany, where labour was never sufficiently strong or radical. The weakness in the US proved especially critical because of the central role of US government in the post-war period.

Table C: Hegemonic projects in 1970s interregnum

Hegemonic project	Accumulation Strategy	State form	Economic policies
Resilient Keynesianism	Fordist capitalism	Welfare state	Income policy Keynesian demand management
Neoliberalism	Financialised capitalism	Liberal workfare state	Financial and labour market liberalisation Trade and FDI globalisation
Socialist Reformism	State-led Industrialisation, mixed economy	Interventionist welfare state	Nationalisation Wage-earner funds Capital controls

3.3 Eventual triumph of neoliberalism

In most countries, the immediate policy reaction to the economic downturn of the 1970s was to employ the conventional instruments of Keynesian demand management and attempts to use income policies of varying strictness to keep wage and price increases in check. These strategies, however, became increasingly untenable as coordination and compromise between labour and capital became harder to reach. In Britain, for instance, the strategy effectively died in 1976 when the Labour

government essentially surrendered to IMF demands for monetarist policies (Hickson & Seldon, 2004). In other countries, these attempts proved more long-lived, but with the US turn to monetarism and increasing pressure from international organisations such as the OECD and IMF for financial liberalisation, it proved harder and harder to sustain the national Keynesian policies (Harvey, 2007; Marcussen, 2000).

Interestingly, the radical alternatives of socialist reformism in many places proved more enduring than the centrist models. Especially in Scandinavia, Britain, and France, the 1970s saw a radical turn of central parts of the centre-left. However, these national strategies eventually faltered. In hindsight, 1983 proved a decisive year in which the last advocates of alternative strategies to neoliberalism were defeated in Britain and France. The same year was marked by a U-turn by Mitterrand who, under pressure from capital flight and the international financial markets, abandoned his policy of redistributive socialism in favour of a programme of austerity and liberalisation. This development was cemented by later socialist governments (Clift, 2002). In Britain, the interregnum ended after the 1983 election with Labour's defeat in the polls and subsequent abandonment of any ambition of industrial policy and the Alternative Economic Programme. In Scandinavia, the early 1980s signified the end of all ambitious programmes of wage-earner funds as economic strategies. In Denmark, the project was buried by the newly ascended conservative government, while the wage-earner funds in Sweden were implemented in a watered-down version with little impact on the economy (Ryner, 2003)

It is possible to see similarities between the interwar and 1970s. This lies in the inability of the institutional order to solve the contradictions it faced and division among elites around which strategy to take in dealing with this crisis. According to the definition laid out, the 1970s have all four characteristics: lack of consensus, political dysfunction, realignment of social forces, and the presence of several competing projects. This situation of interregnum meant chaos and crisis, but also increasing political openness following the slow collapse of previous hegemonic ideologies. Moreover, while the

neoliberal hegemonic project ended up successful, this did not mean there were no viable alternatives in the period. Looking back from today, it does not seem as though Rudolf Meidner or Stuart Holland provided less credible solutions to the crisis than Milton Friedman and Patrick Minford. Focusing on these defeated alternatives reveals the contingencies for the current era.

4. A 2008 INTERREGNUM?

The end of the 1970s interregnum ushered in a 25-year period of neoliberal dominance. With the defeat or domestication of organised labour in the 1980s and 1990s and the rise of the pro-business leaders of the third-way social democracies (Mudge, 2011; Ryner, 2003), no alternatives could muster major support in the period.

This situation changed with the advent of the financial crisis of 2007-8. As stated in the introduction, a large body of post-crisis literature argues that this crisis, despite initial problems, was solved within neoliberal parameters and that the hegemonic equilibrium was re-established in the wake of the crisis. I will argue, however, that in this apparent institutional stability it is possible to see the indications of deeper problems, and that the current period can more productively be analysed as a new period of interregnum as developed above. On the material level, the recovery after the crisis has been anaemic at best, furthering a trend towards stagnating growth rates that have been evident for decades (Gordon, 2016). Another sign of problems for neoliberal globalisation is that the rise of global trade and capital flows are facing a secular slowdown (WTO, 2016) pointing to an increasing institutional dysfunctionality and inability to produce earlier results.

At the same time, there seems to be a growing division among ruling elites in which the neoliberal consensus has been superseded by increasing disagreement and confusion. At the institutional level, negotiations around international trade deals such as the TPP, CETA, or TTIP, which were otherwise

seen as means of invigorating trade and growth, have stranded (De Ville & Siles-Brügge, 2015). On the intellectual level, the growing uncertainty can be seen in recent warnings of rising inequality from the research groups of IMF and OECD or talks at the World Economic Forum in Davos (OECD, 2011; Ojala, 2017). This is especially evident in the 2016 IMF publication “Neoliberalism: Oversold”, which suggests that two main tenets of the neoliberal agenda—unrestricted capital mobility and the purposeful attempt to limit the size of government through privatisation and fiscal orthodoxy—have, in fact, not brought growth but rather increased inequality and instability (Ostry et al., 2016). At the same time, the rise of anti-establishment politics all over the developed world seems to usher in a new period of political instability. I will argue that it is possible to outline three distinct hegemonic projects in the increasingly volatile political landscape and that each points to different solutions to the increasing contradictions. Those projects are Left Populism, Economic Nationalism, and Austerity Neoliberalism.

4.1 Anti-establishment projects

The primary surge of left populism emerged out of the wave of street movements such as M15 and Occupy Wall Street that swept the world in 2011. In the last years, these movements have transformed towards an institutionalised and party-political form and, in several countries, moved hitherto marginal positions into the political mainstream coming close to state power (Gerbaudo, 2017). This movement has taken two forms. The first is the rise of new parties on the far left such as Syriza and Podemos. The second is the takeover of traditional centrist parties by new leaders carried into power by a new generation of more radical members, as in the case of Corbyn’s Labour.

While the political demands of this new generation of left populists is not especially radical in comparison to the reformist left of the 1970s, these parties nevertheless present a clear break from the neoliberal consensus of the last decades, and leaders such as Iglesias and Corbyn present political

visions that transcend capitalism in the longer term (Iglesias, 2015; Seymour, 2016). The most clear formulation of a new economic project, probably comes from the Labour Party in the UK, where Shadow Chancellor John McDonnell, explicitly citing Marxist and post-Keynesian economics, has outlined an economic strategy with elements such as wage-led growth and creation of alternate ownership forms through nationalisation and employee-owned firms (McDonnell, 2016). Another alternative to the neoliberal strategy, Economic Nationalism¹³, is emerging on the right of the political spectrum with the rise of right populist or xenophobic parties. While large parts of these parties have few concrete economic policies, influential factions in these new parties represent a clear break with central tenets of neoliberalism. Economic nationalism can be seen as an attempt at national economic revival with a focus on domestic, industrial production that has suffered under neoliberal globalisation. In contrast to left populism, this project of economic nationalism represents a clear pro-business and pro-capitalist strategy.

There is, however, a break with neoliberalism on two crucial issues: world trade and the discretionary role of the state. The paradigmatic example here is the Trump campaign and the Front National in France¹⁴. In both cases, there is opposition to free trade and the right of companies to relocate production, as signalled in the cancellation by the Trump administration of the TTP treaty or the opposition of the Front National to the EU and the Common Market. The issues of free trade and especially free capital mobility have been a cornerstone of global neoliberalism for four decades. A part of that implies a formal acceptance of the inability of governments to discriminate against foreign capital in favour of domestic capital. Secondly, neoliberalism implies governance through laws and

¹³¹³ The term of economic nationalism here denotes a new pragmatic stance among a range of actors, rather than a conscious application of the economic ideas of the tradition of economic nationalism and infant industry protection normally associated with Friederich List (Helleiner, 2002)

¹⁴ Front National has gradually shifted its economic rhetoric from an original Reagan-inspired, neoliberal stance, to a policy of economic nationalism with much more focus on social security and critique of globalisation (Bastow, 1997).

rules—rather than government discretion—and the depoliticisation of decisions on economic policy. Here the threats of politically imposed tariffs (Rinke, 2017), of the US leaving the Basel-IV negotiations (Jones, 2017), and the direct intervention in individual company decisions (Tankersley, 2016) points toward a re-opening of economic issues that have otherwise been the domain of neoliberally minded experts for decades.

4.2 Neoliberal resilience

Despite the loss of legitimacy and the threat from insurgent policies, the neoliberal policy framework is still in place in most countries. This entails a general continuation of the structural reforms of the last decades and strict austerity in fiscal policy in combination with unorthodox monetary policies carried out by independent central banks (Matthijs & Blyth, 2017). The results here have largely been a downward pressure on wages—a tendency furthered by further precarisation of labour market conditions in many countries, a situation it is hoped will re-stimulate growth through revived competitiveness of industry (Lavoie & Stockhammer, 2013)

The governing mode of neoliberalism is also changed in the interregnum. The previous duopoly, with the ‘cartel parties’ of left and right neoliberalism, are under dissolution in most countries (Mair, 2013). This is due to pressures from anti-establishment parties, as with Podemos or Front National, or the defection of parties or factions of parties from the neoliberal programme, as with Corbyn or Trump. This has led to new forms of governance as a grand coalition between otherwise opposed political forces, as in Germany, or in France, where Macron in his own words had to create a political revolution and destroy both establishment parties to get through a relatively standard neoliberal policy package, of labour market deregulation and corporate tax cuts (Macron, 2016).

Table D: Hegemonic projects in post-2008 interregnum

Hegemonic project	Accumulation Strategy	State form	Economic policies
Austerity neoliberalism	Low wage, financialised capitalism	Reduced workfare state	Fiscal austerity, Trade liberalisation (bilateral) Precarisation of labour
Economic Nationalism	National-industrial capitalism	National competition state	Protectionism National deregulation Pro-business state intervention
Left Populism	Wage-led growth, mixed economy	Welfare state	Financial regulation Limited nationalisation Redistributive tax reforms

4.3 Comparisons with earlier interregnums

As noted above, the current period fits most of the definition of interregnum laid out in this article: lack of consensus, political dysfunction, and competing hegemonic projects. The last point of the definition, the reconfiguration of social forces, still seems undetermined. When comparing to the last interregnum in the 1970s, both the crisis of the capitalist economy and the crisis of political legitimacy seem deeper in the post-2008 world. Growth rates are lower, recoveries more anaemic, and the living conditions of people in the Western world have been much more adversely affected (Stuckler & Basu, 2013). However, at the same time, the alternatives to the neoliberalism seem to be weaker and with less backing than was the case with the alternative hegemonic projects that emerged out of the 1970s interregnum.

The question remains, however, what such a conclusion means for an analysis of the current conjuncture. The first is a notion that the apparent lack of institutional and ideational change after the 2008 crisis does not necessarily mean the entrenchment of neoliberalism. Rather, it can be a sign of gridlock and the inability of the political establishment to implement the form of gradual reform that

characterises periods of greater political stability. It may further signal that the current political discontent might not go away anytime soon and, coupled with fissures in the governing elite, may signal as well that we can expect further instability before a form of hegemonic equilibrium, possibly, is re-established.

The situation of interregnum also means a greater political openness and possibility for political alternatives than under the functioning hegemonic equilibrium. The fact that non-neoliberal parties have a chance of taking power in central countries in the coming years means a distinct widening of the scope of political discussion and contestation. This furthermore means that political parties potentially take on a more central role in the years to come as the vehicles of new hegemonic projects. This represents a break in trends noted by Colin Crouch and Peter Mair related to the increasing irrelevance of political parties under the neoliberal period (Crouch, 2004; Mair, 2013)

However, this does not necessarily imply that the political instability of the interregnum heralds the unravelling of capitalism as such, as claimed recently by Wolfgang Streeck and Paul Mason (Mason, 2015; Streeck, 2016). While the increasing political volatility, indeed, opens greater space for alternatives, looking at the history of 20th century capitalism through the lens of the interregnum reveals that dissensus and instability are as natural a state for the capitalist world economy as stable hegemony.

5. CONCLUSION

This article has described and operationalised the Gramscian notion of the *interregnum* from the *Prison Notebooks*. The concept of interregnum developed in the article offers a new theoretical tool for understanding the situation of a capitalist economy without functioning ideological hegemony. In this

way, the concept offers a new perspective on the current conjunctures in the aftermath of the 2008 crisis as well as the long processes that generally follow the breakdown of an ideational hegemony.

The concept of interregnum offers a revision to the idea of ‘punctuated equilibrium’, which dominates large parts of the scholarship on the relation between crisis and social and ideological change in IPE.

This idea holds that history develops in plateaus of stability punctuated by short critical junctures characterised by rapid change. Instead, the article has argued that these ‘punctuation’ between hegemonic equilibriums often constitute lengthy periods. These periods of interregnum must be understood as historical periods in their own right and analysed on their own terms, characterised by political instability and competing hegemonic projects.

This approach opens up for an analysis of the current conjuncture that transcends the dichotomy between seeing neoliberal hegemony as either being in a terminal crisis or having already overcome the crisis. By using the concept of interregnum to, the article has offered an alternative lens, where the full effects of the crisis of legitimacy of neoliberalism are only starting to show. The analysis offered in the article points to a scenario where a situation of instability and competing hegemonic projects can last for decades before a resolution is found.

In a broader theoretical context, the article also contributes to the discussion of the use of history in IPE literature, and especially the prevalence of the model of ‘punctuated equilibria’. While the periodisation of history into discrete epochs and periods can be useful and productive for developing clear theoretical arguments, there are also dangers connected to squeezing the historical record into a set of consecutive paradigms, epochs, or modes of regulation. Doing this often requires a retrospective way of seeing in which the focus is on tracing the genealogy of subsequently successful projects—be it Keynesianism or neoliberalism. While this approach has yielded great insights, it also tends to obscure the other potential projects or paradigms that were available at the time.

By focusing on the specific dynamics of ideological contestation between competing hegemonic projects that characterise periods of interregnum, the article has tried to draw attention to these unsuccessful projects. This offers a view of history that is more in line with how the actors at the time envisaged it and also draws attention to the openness and contingency of historical processes, where alternative avenues were always available.

ECONOMIC LIBERALISM AND THE STATE:

DISMANTLING THE MYTH OF NAÏVE LAISSEZ-FAIRE

Abstract:

The article offers a critique of the prevailing understanding of the relationship between neoliberalism and classic 19th-century liberalism in contemporary IPE and offers a redefinition inspired by Polanyi and Gramsci.

Within critical IPE studies, a consensus has emerged that neoliberalism cannot be reduced to a simple attempt to roll back the economy and let loose free-market forces. However, this insight relies on contrasting neoliberalism with a classic liberalism, that is, a simple attempt to implement just this naïve laissez-faire ideology. In contrast, this article argues that 19th-century liberalism is also characterised by an active use of state and legislative power. Through a historical study of two cases from 19th-century Britain, Poor Law reform and the Gold Standard, the paper will argue that state action played a central role even during the heyday of laissez-faire liberalism.

With a starting point in Polanyi's dictum that 'laissez-faire was planned', this reinvestigation will point toward a need to develop a more nuanced understanding of the distinctions between economic theory, ideology, and practical policy, as well as pointing toward a general reinterpretation of the role of the state in liberal economic ideology.

1. INTRODUCTION

The understanding of neoliberalism as an intellectual project has progressed greatly in the last decades with the emergence of a range of works dealing in depth with the theoretical tradition of neoliberalism across fields such as international political economy (IPE), sociology, and geography (Boas & Gans-Morse, 2009; Brenner, Peck, & Theodore, 2010; Brown, 2006, 2015; Caldwell, 2011; Davies, 2014; Dean, 2012; Fourcade & Babb, 2002; Harvey, 2007; Mirowski, 2009, 2013).

A central theme of much of the new literature on the intellectual roots of neoliberalism has focused on the issue of the state. An apparent paradox at the core of neoliberalism has motivated this interest in the state.

A growing consensus within political economy literature in recent decades has documented how neoliberal ideas about free markets and privatisation have been increasingly dominant in universities, government agencies, and international organisations since the 1980s (Backhouse, 2009, 2005; Campbell & Pedersen, 2001; Chwioroth, 2007, 2009; Fourcade & Babb, 2002; Harvey, 2007; Hay, 2001, 2004b; Jessop, 2002). This consensus has recently been joined by the research division of the International Monetary Fund (IMF) with their paper 'Neoliberalism: Oversold?'. (Ostry et al., 2016). This neoliberal dominance has not in any meaningful sense meant a rollback of the state from the economy.

Among the new wave of more sophisticated works on neoliberalism, we have seen an understanding emerge in which the goal of neoliberalism is not seen as a simple realisation of the night-watchman state in which state power is rolled back in favour of market forces. Instead, researchers such as Michel Foucault, Philip Mirowski, and Jamie Peck see neoliberalism as a project that is aiming towards a redefinition of the relationship between state and market. The goal is not only to deregulate, but also to use state power to reshape the economy actively.

This nuanced understanding of the relationship between state and market in neoliberalism, however, is often made by contrasting it with a distorted version of the classic liberalism of the 19th century,¹⁵ which is portrayed as a simple realisation of the principle of laissez-faire¹⁶ and the night-watchman state. This idea of a sharp contrast between neoliberalism and classic laissez-faire liberalism can be traced back to the early neoliberals such as Hayek or the ordoliberals who, in the period after the Great Depression, formulated the doctrines of neoliberalism as a stated contrast to what they perceived as the dogmatism and simplicity of classic laissez-faire liberalism. This sharp contrast between classic laissez-faire liberalism and neoliberalism was developed by Hayek and the early Mt. Pelerin Society in a special conjuncture in the 1930s and 40s, but it has since been taken as gospel for a great number of studies, beginning with Foucault's analyses of neoliberalism in the late 1970s.

This picture is far from accurate, however. Laissez-faire liberalism's hegemony in the 1800s was not characterised by consensus on a naive rollback of state power. Instead, there existed a wide range of theoretical positions in relation to the state's role in the economy. In political practice, the period also saw economic liberals employ an imaginative and active use of state power means to promote the project of laissez-faire. Furthermore, later neoliberals such as Milton Friedman and his followers in the Chicago school, who came to influence the next generation of the Mont Pelerin Society, also set out a vision of the state which is much closer to the classic notion of laissez-faire than the writings of Hayek or the ordoliberals in the 1940s.

As such, the flexible and active use of the state to promote the goal of market regulation is not a specific ideological innovation by neoliberalism but rather something that can also be found in the classic laissez-faire liberalism. If we look beyond the self-representation of the early neoliberals in the

¹⁵ Liberalism is, for the purposes of this article, delimited as the self-identifying political liberal movement in line with Fawcett, (2015). 'Liberals' from the period before the term was first used in Spain from the 1810s are therefore only touched upon sporadically.

¹⁶ The term laissez-faire originated from the physiocratic school in 1700s France (Viner, 1960), but in this article, will be used to denote the period of the doctrine's dominance within liberal economic thinking in the first part of the 19th century.

mid-20th century that had a polemic interest in proposing a break with a purposed naïve and dogmatic laissez-faire of the classic liberal period, another picture emerges. Rather, there was a wide span of opinions on the proper role of the state among liberal economists in the classic period. Moreover, when looking at the political project of creating a market society in the 19th century, we can see a deep and creative use of legislation and state power to further the project.

This observation is not new, however, but is stated by Karl Polanyi who, in *The Great Transformation*, famously states that ‘laissez faire was planned, planning was not’ (Polanyi, 2001). Less well known, Antonio Gramsci developed very similar ideas a decade before in his *Prison Notebooks* where he describes how laissez-faire too is a form of state ‘regulation’ (Gramsci, 2011a, 273). I will argue that these observations serve as a better platform for exploring the complex and contradictory relation between economic liberalism and the state than a juxtaposition between naïve and simple laissez-faire of the classic period with the flexible, pragmatic (and devious) neoliberalism of our time.

The article will attempt to revise the dichotomy between neoliberalism and classic laissez-faire by a review of the hegemonic period of classic liberalism in mid-19th-century Britain to show how central characters of the early liberal political economy formulated a view of the state's economic role that is far more nuanced than a passive night-watchman state. This will be followed by a discussion of the central role of legislation and state power in the realisation of the project of market creation in the classic liberal period. Then, the article will show how laissez-faire thinking is also present in the neoliberal movement, while the final section will show how the observations of Karl Polanyi and Gramsci can be taken as a starting point for the development a more nuanced understanding of the relationship between state power, capitalist practice, and economic theory.

2. FROM HAYEK TO FOUCAULT

Few works have had greater impact on the research in neoliberalism than Foucault's treatment of the subject in his lectures on *The Birth of Biopolitics* at the College de France in 1978-79 (Foucault, 2008). In these, Foucault presents the idea that neoliberalism must be analysed as a distinct, new theory complex, which is radically different from the classic economic liberalism that triumphed in the 1800s. He states that 'Neoliberalism should not (...) be identified with laissez-faire but rather with permanent vigilance, activity, and intervention. This is very clear in most of the neo-liberal texts' (Foucault 2008, 132).

Foucault describes a turn towards a more positive view of the state in the neoliberal movement, especially among Hayek and former ordoliberal such as Walter Eucken and Wilhelm Röpke who, in the 1930s and 40s launched their economic thinking as a contrast to the classic idea of laissez-faire. The goal was not to minimise the size of the state but to reshape its institutions and use state power to spread market regulation to new parts of society.

The problem of neo-liberalism was not how to cut out or contrive a free space of the market within an already given political society, as in the liberalism of Adam Smith and his contemporaries. Rather, the problem of neo-liberalism is how the overall exercise of political power can be modelled on the principles of a market economy. (Foucault 2008, 131). According to Foucault, the ultimate objective of the neoliberals was not to free market forces through a rollback of the state. Instead, the aim was to develop a new governance of the self which allowed the tools and techniques of the market to be spread to more areas of life. In this way, the economics of individual competition and rationality of the market provided a normative model for society. This development culminated with Gary Becker of the Chicago school, who with his *Economics Imperialism*, used the neoclassic methodology to model and describe all forms of human behaviour from marriage preferences to the prevalence of crime.

Foucault's analysis of neoliberalism has been immensely influential and has spawned an immensely rich tradition of works, often focussing on issues of power, governance, and subjectivity (Brown, 2015;

Davies, 2014; Davies & McGoey, 2012; Dean, 2012; Lemke, 2001; Read, 2009). It lies outside the scope of this article to engage with this tradition on aspects other than the insistence on the importance of the break of neoliberalism with classic liberalism when it comes to the state. A prominent example of the tradition is sociologist Wendy Brown, who describes how ‘neoliberals deviate from laissez-faire economics in mobilising law and policy to support the market and shape social goals’ (Brown 2006)

Outside of the Foucauldian tradition, this idea has also gained traction. Important contemporary analysts of neoliberal theory such as Jamie Peck (Peck, 2010) and Philip Mirowski (Mirowski, 2013; Mirowski & Plehwe, 2009) have a similar take, as will be discussed below.

It is no coincidence that this understanding has been successful. The idea that neoliberalism aims to transform rather than decrease the state has been used as a counterweight to simplistic descriptions of the neoliberal project as a one-eyed attempt to roll the welfare state back or a simple market fundamentalist ideology based on blind faith in market forces (see Giddens, 1999; Krugman, 2009; Stiglitz, 2009). This view became more popular after the millennium as it began to be clear that the neoliberal wave of reforms since 1980 had not led to any significant reduction in government size, even in liberal core countries like England, Australia, and the United States (Cahill, 2014).

However, there are also problems in this approach to neoliberalism. There is a danger of uncritically taking over an assumption of a classic dogmatic laissez-faire that was advanced by early neoliberals such as Hayek under special conjunctural circumstances. The nuanced understanding of neoliberalism is thus provided by contrasting it with a very un-nuanced image of classic laissez-faire liberalism. This classic liberalism is portrayed as everything neoliberalism is not: dogmatically hostile to government regulation, keen on a simple minimisation of state power, and with no understanding of the active role of the state in constructing opportunities for new markets. Peck, for example, describes how the ‘fundamental error in the foundations of 19th-century liberalism [was that it] gave the state hardly any other task other

than to maintain peace, and to foresee that contracts were kept. It was a naive ideology.’ (Peck, 2010, 3).

Mirowski similarly discloses how ‘the dichotomies and rigidities that characterised classic liberalism with regard to its proposed firewalls between economics and politics’ and how neoliberalism in contrast, ‘has to be understood as a flexible and pragmatic response to the previous crisis of capitalism’ (Mirowski, 2013, 55). He also stresses that ‘The starting point of neoliberalism is the admission, contrary to classic liberal doctrine, that their vision of the good society will triumph only if it becomes reconciled to the fact that the conditions for its existence must be constructed, and will not come about “naturally” in the absence of concerted political effort and organisation.’ (Mirowski, 2013, 61). In this way, it paints a picture of classic liberalism where laissez-faire was not just an ideological guideline but also the actual executed policy. This image helps to highlight the neoliberal doctrine’s distinct breakthroughs. The problem, however, is that the image thus drawn of classic laissez-faire liberalism is both simplistic and wrong.

3. THE NUANCES OF THE LAISSEZ-FAIRE DOCTRINE

The classic laissez-faire liberalism is particularly linked to 19th-century Britain. Although there have been precursors among Enlightenment free-trade advocates such as Adam Smith and Bernard de Mandeville, it was in the period after the Napoleonic Wars that a genuine liberal political identity emerged (Fawcett, 2015). In Britain in the decades after 1820, a liberal movement with advocates such as Ricardo, Richard Cobden, and Jeremy Bentham succeeded in implementing a political agenda of free trade, the rule of law, and protection of private property. Among the important political results were Poor Law reform in 1836 and the dismantling of protectionist grain laws in 1846 (Hobsbawm, 2003). With their radical economic program centred around the market and free trade, the 19th-century laissez-faire movement distinguished itself markedly from the more socially oriented liberalism that came to dominate most liberal parties during the first half of 20th century (Freedman, 1986). However, their radical economic

ambitions did not mean that the relationship with the state was unison or naive. Regarding both theory and political practice, classic laissez-faire liberalism contained a far more diverse and nuanced view of the role of government than assumed by Hayek and the ordoliberals.

In the intellectual sphere, 19th-century laissez-faire liberalism contained both supporters of a minimal state, such as the Manchester School of Richard Cobden and John Bright, as well as liberals who had a much more positive view on government intervention, for example, in the utilitarian tradition of Jeremy Bentham and John Stuart Mill. In *Principles of Political Economy*, J. S. Mill in 1848 described how the state's role in the liberal community was not only to maintain peace and order but also to assume a variety of substantial economic roles. This included areas such as poor relief, education, the establishment of colonies, and in special cases where the market could not solve it, the construction of 'roads, docks, harbours, canals, irrigation systems, hospitals, schools, universities, printing presses (Mill, 1848, 54). The historian of economic thought, Roger Backhouse, describes how the majority of the period's politically active economists, including Ricardo, were organised in the Political Economy Club founded in 1821. These were supporters of free trade and opponents of government regulation, but who had "a pragmatic outlook [on the role of the state] in which the role for laissez-faire was severely circumscribed" (Backhouse, 2002, 150).

4. PRACTICE OF THE LIBERAL STATE

When it came to political practice, classic liberalism was not characterised by a unilateral laissez-faire either. Despite self-representation as a doctrine of limited state action, this is not the historical track record of liberals in power. Modern liberal capitalism in its British heartland did not grow in a situation of minimal state power, but rather, a situation of an unprecedented powerful state. Thomas Ertman's historical sociology has demonstrated how the British state from the Norman period was remarkably

strong and coherent with a large bureaucratic reach (Ertman, 1997). This situation did not change after the glorious revolution of 1688. In contrast, the state reached an even larger size in this period of liberal ascendancy. As Peer Vries (2015) has recently demonstrated in *State, Economy and the Great Divergence*, the English state in the period not only had vastly greater levels of resources, as measured in expenditure per capita, than comparable states in continental Europe but also in comparison to the most developed Asian states. In 1850, at the height of the laissez-faire period, Vries estimates the annual tax income of the British state to be the highest in Europe at 250 grams silver per capita, as compared to 180 gram in France, 95 gram in Prussia and 69 in Austria (Vries, 2015, 81)

On the central question of the organisation and disciplining of labour, both state and private power played a key role. The creation of a free-market economy depended on the access to free but obedient workers who willingly sold their labour for a fair price. However, this was a creature that did not exist naturally, but rather, one that had to be created. The process of commodification of labour was not an automatic historical development. Nineteenth-century economic liberals understood that to create a genuine market for labour, they had to remove other substantive options than participation in the labour market. Here legislation and state power played an active and decisive role. The main barrier to the realisation of the desired labour market was the English poor laws (Blaug, 1964). If the workers could receive support from the parish, the early liberals saw it as impossible to get the necessary number of workers to offer their labour for sale. The English poor-law system, which was based on a social benefit financed by the local parish, had its roots to the Tudor era but was enhanced considerably by humanitarian reformers in the late 1700s (Cowherd, 1977, 14).

These welfare reforms were met with fierce resistance. At first, this resistance was driven primarily by a moralistic criticism, with Thomas Malthus as a leading figure, where it was seen as a moral imperative that the poor were subjected to hard work. It was not until the next wave of opponents however, that the criticism of the poor laws was effectively organised. This group, whose work culminated in the

major poor law reform in 1834, with Jeremy Bentham as a central figure and which consisted primarily of economic liberals who supported the project of laissez-faire (Cowherd, 1977, 82). Bentham's opposition to the existing poor laws was based on utilitarianism and his belief in the free market. He believed that wealth came from the freedom to invest capital and that such freedom demanded the complete commodification of labour (Bentham, 2001). To create the social situation which made possible a real labour market, that is, the absence of other subsistence options than participation in labour for wages, it was necessary to use legislation and state power actively to remove the protective institutions and norms that stood in the way of this development. In 1801, Bentham formulated his relationship to state power as follows:

I have not, and never had, nor ever shall have any horror, sentimental or anarchical, the hand of government. I leave it to Adam Smith and champions of the rights of man (...) to talk of invasion of the natural liberty, and to give as a special argument against this or that law, an argument which would put a negative upon all laws (quoted from Hutchison, 2002, 37).

The liberal reformers triumphed in 1834 with poor law reform, which sharply reduced the poor relief. Eric Hobsbawm emphasises that 'the Poor Law of 1834 was designed to make life so intolerable for the rural paupers as to force them to migrate to any job that was offered' (Hobsbawm, 2003, 188). For the radical liberals behind the reform, this was not a problem but the target itself: the threat of unemployment and hunger as a motivating and disciplining factor that could be used to achieve a controllable workforce without direct coercion or violence as during the feudal system. Even John Stuart Mill expressed this sentiment in *Principles of Political Economy* where he stated that public assistance makes impossible any form of civilised management because, without the power to dismiss, it was only possible 'to extract real work from day labourers using the power of the whip' (Mill, 1848, 263)

The international gold standard is often seen as the pinnacle of the 19th-century laissez-faire project. In theory, the gold standard was supposed to be a completely automatic, market-based system in which

the value of the currency was tied to the commodity of gold through the ability to redeem bills for specie. This meant an automatic safeguard against inflationary policies put forward by the monarch or other social actors (Eichengreen & Flandreau, 1997). On the international level, monetary flows between different countries would thus automatically adjust through the ‘specie-price-flow-mechanism’ laid out by David Hume in 1752 (Hume, 1997 [1752]). The actual institution however, never worked quite as smooth or automatic as the theory prescribed.

In recent work, Samuel Knafo (Knafo, 2006, 2013) has demonstrated how, with the formalisation of the gold standard in the middle of 19th century, Britain created more state control over the monetary system, not less. The centralisation of the issuance of bank notes in the Bank of England meant easier control over the money supply than the previous practice of the issuance of notes by private banks (Knafo, 2006), 90). This move not only allowed greater state involvement in the money supply, in concert with the Bank of England but also provided instruments to curtail the inflationary pressure that had characterised the decentralised system with issuances of notes from private banks during the Napoleonic war. Therefore, the move to the gold standard meant more, rather than less, state control over the currency when compared with earlier monetary practices, and it set the stage for the sort of monetary activism that followed in the 20th century, where Keynes famously described the gold standard as a ‘barbarous relic’(Keynes, 2012). When the gold standard today is seen as a realisation of pure laissez-faire rather than an active system of monetary government by the state, it is because it is compared with the forms of monetary policy of regimes that followed rather than those it replaced. If we do this, following Knafo, it can also be seen in the field of money that the era of classic liberal laissez-faire was one of an active and expanding state.

When you look at the economic liberals of the 19th century, it is important not only to recognise the doctrinal differences but also to distinguish between self-representation and political practice. On the

one hand, almost everyone in the period was a nominal supporter of letting the self-regulating market forces rein, on the other hand, the vast majority were also open to the use of state power and legislation to remove barriers to commodification, and they saw the need for expanding state power over the individual when it came to disciplining labour.

4. DIFFERENCES WITHIN NEOLIBERALISM

The thesis of the fundamental difference between classic *laissez-faire* and neoliberalism is not problematic only because of a simplistic understanding of the classic liberalism, but also of a one-sided understanding of neoliberalism. If we look at the neoliberal movement through its history, it is difficult to see a completely unambiguous rejection of *laissez-faire* or a markedly more positive view of the state than in classic liberalism. When early neoliberalism was formulated in the interwar period, it was during a period with growing power of governments who, with financial planning and fiscal policy, were able to intervene much more forcefully in the economy than had been the case previously. At the same time, the Great Depression that followed the stock market crash in 1929 had shaken the faith among the public in the market's self-regulating abilities.

It was in this atmosphere that Hayek and the ordoliberals saw a rhetorical and political necessity in distancing themselves from a perceived discredited ideology of *laissez-faire*.

If we read Hayek or the ordoliberals, we see an opening for a larger and more active role for the state and active polemic against what they perceived as the naive *laissez-faire* of classic liberalism (Bonefeld, 2012; Gamble, 1996; Gray, 1984). In 1944, Hayek states that 'Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all

the principle of laissez-faire' (Hayek 2006, 18).¹⁷ Both in Hayek and ordoliberal, we see what Philip Mirowski call a 'market constructivist' position, that is, a notion that the self-regulating market is not just something naturally existing, but rather an institution that must be created through political action. The state's role is not only to step back and let market forces act but rather, actively to go in and construct the market.

However, this alone is far from the whole neoliberal spectrum, and especially Milton Friedman marked a markedly different attitude towards the state and the classic laissez-faire liberalism (Burgin 2012). Friedman and Hayek, both prominent members of the Mont Pelerin Society, agreed on the essential elements of the neoliberal programme and were, for example, both centrally involved in the development of a far more positive attitude towards private monopolies, even in cases where it counteracted the free competitive market. This marked a clear breakthrough compared to the adherents of classic liberalism, which, inspired by Adam Smith, generally took a critical stance towards the monopoly power of private companies as well as the state or trade unions (Van Horn 2009).

On two key issues, however, there was a fundamental disagreement between the two. In the methodological area, Friedman preferred the highly mathematical form of neoclassic economics, while Hayek denounced this methodology in favour of his Austrian school of economics. In the political sphere, there was disagreement about the relationship between the state and classic laissez-faire doctrine. In *Capitalism and Freedom*, Friedman advances a limitation of the state's size and rollback of the scope of regulation and directly describes his work as being 'in continuity with 19th-century liberalism' (Friedman, 1982, 13). Writing in a period in which capitalists and markets were not as unpopular as in the wake of the great depression, Friedman's very influential popularisation of neoliberalism presented

¹⁷ Hayek changed between different denominations throughout his life. At the founding of the Mont Pelerin Society, he used neoliberal, but abandoned it later. In *The Constitution of Liberty* from 1960 he completely renounces the term liberal in favour of 'Old Whig'. With that, he wanted to highlight its commitment to the defence of individuality and property, which characterized the English revolution of 1688 or the Scottish enlightenment, but also marked the distance to the politically radical turn he thought liberalism later took.

in books and newspaper columns from the 1950s to the 1990s contained a much clearer defence of classic laissez-faire liberalism than found among early neoliberals. Although the Chicago School contained a variety of theoretical perspectives, it was especially Friedman's neoclassic-oriented approach that came to dominate, with a prominent representative in Robert Lucas who, with his theory of rational expectations, tried to delegitimise not only Keynesian macroeconomic policy but any attempt to pursue an active economic policy by the state (Lucas, 1976; Offer & Söderberg, 2016).

To maintain the thesis of the strong difference between neoliberalism and classic laissez-faire requires that we assume that Hayek expresses a more real version of neoliberalism than Friedman. Whether you ascribe these differences to the growing power and confidence of the neoliberal movement in later decades or philosophical differences, it is nevertheless clear that Hayek's early work cannot be seen as the unproblematic ideal type for neoliberalism.

Furthermore, if you look at how neoliberal ideas have had an impact in the community over the last decades, Friedman's neoclassic approach seems to have had a much greater role than Hayek's approach. This is true in economics science, international organisations like the IMF and the World Bank, and at the national level (Backhouse, 2009; Fine & Milonakis, 2009; Chwioroth, 2009; Ban, 2016; Hay, 2004; Stahl & Henriksen, 2014).

However, while Friedman and his followers have dominated in the theoretical sphere, this has not necessarily meant a simple rollback of the state in political practice. Rather, the public share of the economy has been relatively stable over the period since 1980^(REF). This points towards a situation in which the understanding of the state of the liberal economy cannot be understood as a simple contrast between subversive classic liberalism and market-constructive and positive-state neoliberalism; something else must be at play. Philip Mirowski solves this dilemma by putting forward a theory that neoliberalism contains a 'double truth doctrine,' where it is assumed to have both an exoteric and an esoteric version of their ideology. Outwardly, the Mt. Pelerin Society members preach free markets and

deregulation, while internally they all understand that it is necessary to use state power to attain these goals. A much simpler assumption, however, is that the neoliberal movement contains ideological contradictions, and there is no less reason to take Friedman seriously when he talks about continuity with the classic laissez-faire than when Hayek criticises classic liberalism.

5. THE PROBLEM OF THE LIBERAL STATE

Jamie Peck argues that neoliberalism has only ever ‘existed in the “impure” forms, it can actually exist only as messy hybrids. Its utopian vision of a free society and a free economy are ultimately unworkable’ (Peck 2010, 10). This characteristic seems obviously correct. However, as we have seen, the tension between the utopian element and the existing political practice is not a unique innovation for neoliberalism. It also existed in classic laissez-faire liberalism. This suggests that we are not dealing with a specific question of ideological innovation within the neoliberal movement but instead with a general tension between liberal economic ideology and capitalist practices.

The seedlings of a better understanding of this antagonistic relationship between state and economy in liberal economic thinking can be found in Karl Polanyi's work, where the utopian element of liberal thinking plays a central role. The goal of Polanyi's magnum opus *The Great Transformation* (1944) is to show the effects of the attempt to realise the ‘stark utopia’ of the self-regulating market. This involved the creation of a sphere of production and exchange that was completely decoupled from the coercive state and governed exclusively the free and equal exchange of goods by independent individuals. However, at the core of this utopian project lies a paradox—the only feasible way to this utopia of self-regulation goes through direct and continuous government intervention:

There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures—the leading free trade industry—were created by the help of protective tariffs, export bounties, and indirect wage subsidies, laissez-faire itself was enforced by the state. The thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism. (Polanyi, 2001, 145).

Polanyi was not the first to point out the central role of the state, legislation, and coercion in the realisation of ‘laissez-faire’. In *Prison Notebooks* in a fragment on economism, written between 1932-34, Antonio Gramsci lays out very similar ideas on the inherently political nature of the classic liberal project.¹⁸

It must be made clear that laissez-faire too is a form of state ‘regulation’, introduced and maintained by legislative and coercive means. It is a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts. Consequently, laissez-faire liberalism is a political programme designed to change[...] the economic programme of the state itself—in other words the distribution of the national income. (Gramsci, 2011a, 273).

What Gramsci describes is the analysis that laissez-faire liberalism should not be seen as the attempt to remove state power but, instead, as one of several forms the capitalist state can take.

Following Gramsci and Polanyi, we can state that the practice of liberal economic governance has never been of inaction. The creation of markets and space have always demanded the active hand of the state, and economic liberals have, in the 19th as well as the 21st century, taken over existing state

¹⁸ Though both wrote their analysis out of the context of the breakdown of the liberal order and the cycle of revolution and reaction in the wake of the first world war, to my knowledge none of the authors were aware of the others work.

structures and transformed them into vehicles of market reform. For the 19th-century classic liberalism in Britain, this meant the use of legislation and state power to tear down pre-existing modes of social subsistence to create a market for labour (Cowherd, 1977), it meant the gradual construction of the gold standard to control the monetary system domestically and internationally (Eichengreen & Flandreau, 1997), and it meant the employment of the military and diplomatic resources of the state to open new markets through colonisation abroad (Bagchi, 2005; Chang, 2002).

For the neoliberals in the late 20th and early 21st centuries, this has meant the rollback of social insurance and the transformation of welfare to workfare (Jessop, 2002); it has meant the introduction of financial deregulation and removal of capital controls (Chwioroth, 2009), and it has meant the introduction of an international regime of free trade through the WTO and bilateral trade agreements (De Ville & Siles-Brügge, 2015).

While these different policies are obviously different in scope and carried out in very different circumstances, I will claim that it is possible to abstract some general tendencies in the functions that a liberal economy needs from the state. The most apparent is the rule of law, to allow for the definition and protection of property rights, and for the acquisition of private profit in the market. This role of the state has often been at the centre of liberal's political reflection on state power. Adam Smith stated in *Wealth of Nations* that 'the acquisition of valuable and extensive property, necessarily requires the establishment of civil government (Smith, 1990 [1776]) 208).

Beside this, there are, however, several moments where liberal economic governance needs a powerful state. In her work, *The State, Capital and Economic Policy*, Susanne de Brunhoff singles out the control of labour and the regulation of the monetary system as the crucial function of the liberal, capitalist state. (De Brunhoff, 1978).

These are the fictitious commodities, as described by Polanyi, which, while not in themselves commodities produced for sale on the market, are nevertheless treated as such.¹⁹ The commodification of these elements threatens to destroy these, as they are subsumed under the chaotic fluctuation of market prices and, thus, undermine the very foundations of a functioning market society. In this way, the need for the state grows out of the inability of market forces to regulate themselves.

Economist Mike Beggs describes this as

The economic system is not self-reproducing and depends on the state in a number of ways, most obviously for the legal foundation and enforcement of property rights, contracts, and so on. Beyond these ‘night-watchman’ duties acknowledged by classic liberalism, it also depends on the state for the reproduction of certain moments in the circuit of capital, namely, labour, power, and money. (Beggs, 2011, 30)

The problem is, however, that any state powerful enough to secure property, regulate the labour market, and control the currency also poses a threat to private property and the opportunity for profit in the market. This may occur not only through confiscation but also by increasing wages and taxes or eroding the monetary wealth through inflationary policies.

Consequently, the economic liberal tradition has always had a contradictory relationship with the state; on the one side, the state has been necessary to stabilise any sort market economy, while at the same time the state is a constant threat to the very economic activities that it creates the space for, standing as the great leviathan, a threat to a self-organised civil society. As such, while the state is necessary, it also represents a *bête noir* of the liberal tradition, functioning as the counter-image, to the utopian market society they want to create.

¹⁹ For Polanyi, the fictitious commodities also include land.

6. THE NON-STATE UTOPIA

The liberal idea of the market is not only a vehicle of individual freedom through choice but also a collective solution to the problem of coercion of violence. In liberalism, the state is conceptualised as a realm of coercion and force. The jockeying for political power is always an attempt to gain power to force others to do one's will. The market, in contrast, is characterised by the use of economic power, which works through voluntary contracts and agreements. Thus, the state might be necessary to enforce the juridical system that allows for a system of contracts and exchanges and secures the right and property of the individual. However, in all substantial matters of individual welfare, solutions via the market are preferable to the realm of the state.

Albert Hirschman (Hirschman, 1997), in his *The Passions and the Interests: Political Arguments for Capitalism before its Triumph*, traces how the original argument for a liberal capitalism was laid out as a displacement of the competition for honour and domination in the political and public realms by the competition for profits and accumulation in the private and economic realm. The rationale for this was that, by this displacement, the passions that would otherwise find violent outlet in the military or status-driven competition for honour and position could be moved to the peaceful but nevertheless competitive and dominance-driven field of the market. The social ideal was thus moved from the gentleman of leisure to the hard-working bourgeois. In this way economic competition in the market would not only be a vehicle for greater wealth but also of limiting the role of violent politics in favour of (peaceful) economics.

However, the idea of the radical distinction between the realm of the market and the realm of the state also contained a further implication. Because the market was seen as a sphere of equal exchange, it was also seen as a place where political, and thus moral, discussions, had no proper role. Robert Heilbroner, the eminent historian of economic thought, describes the main move of liberal political

economy as constructing the idea of the market as a sphere beyond the need for any political or ethical justification, essentially a ‘demoralisation’ of any market activity. He describes how

The demoralisation of economic activity not only removed any need to justify the logic of capitalism, provided that it did not directly violate the law or outrage the deepest moral standards of society. Thus a kind of moral pardon is applied to all licit activity of the so-called capital-accumulating sector (...) As a result there is a further widening schism of worlds: one ‘private’, profitable and above intrinsic reproach, the other public, unprofitable and without the presumptive innocence of the private sector. (Heilbroner, 1985,116).

By constructing the market as a realm outside the traditional political consideration of legitimacy and coercion, where all interaction was a priori seen as a consequence of free-willed exchanges, the self-regulating market can thus be constructed as a realm of complete freedom. While this would openly declare this marketplace free of politics, rent and power a description of the actually existing market, it is this version that is taught in Economics 101 classes all over the world (Hill & Myatt, 2007; Madsen, 2013; Zuidhof, 2014), and with certain limitations, is what underlies the DSGE (dynamic stochastic general equilibrium) models used for economic forecasting across a range of think tanks and governmental institutions (Morgan & Knuuttila, 2012). However, the idea of free and completely independent individuals exchanging goods in a market without the presence of coercion or the ability to influence market forces is a utopia, in line with the idea of the completely classless society.

German philosopher Joseph Vogl speaks of the idea of the market in liberal economics as a ‘oikodicy’—based on Leibniz’s famous idea of the theodicy’, or justification of God. In Leibniz’s formulation, despite pain and suffering, we live in ‘the best of all possible worlds’, because if God could have made the world otherwise, he would, in his omniscience, have done so. According to Vogl, this figure was taken over by early liberal economic thinkers to denote the workings of the market (Vogl

2014, 14). While market outcomes, with inequalities and self-interest, might not be fortunate for all, the overall distribution of wealth through the market mechanism represents the best of all possible distributions. If there had been a better possible distribution, then market actors would have already made those exchanges. Vogl describes this justificatory figure as being present in a range of liberal economic theory from the invisible hand of Adam Smith to the neoliberal idea of ‘the efficient market hypothesis’, offering an a priori justification for any possible market outcomes.

For Polanyi, the attempt to realise the market-utopia was essentially a quixotical project. An attempt to realise the complete commodification of land, labour, and capital, which was necessary for the self-regulating market mechanism to function, would undermine the very society that market was embedded in (Polanyi, 2001, 119).²⁰ However, the very unattainable character of the perfect market utopia lends an ideological drive to liberal political economy. Because all existing markets, no matter what level of (neo)liberal deregulation, are always embedded in political structures, it is always possible to blame any failing of concrete reform projects on the insufficient strictness in the application of doctrine. This prevalence of this sort of implicit utopian idealism has meant that proponents of economic liberalism have always been able to represent it as an unfinished project, where the solution to market failures is more markets.

This tension between a utopian vision of the market as a space of freedom without the politics and coercion of the state and the practical need for state power has existed in liberal political economy since its inception under early capitalism. The success of both classic laissez-faire liberalism and neoliberalism is due to the fact that both political movements contained both these aspects: both a market utopian energy that described the possibility of a society based on individualised voluntary exchange, freed from

²⁰ In the colonies and peripherals countries, the experiment with the self-regulating market was allowed to run much longer than in the core countries and with consequences that were even more destructive than what Polanyi drew up. In Ireland in the 1840s and India in the last half of the 19th century, the full commodification of food production was allowed to run out to its logical conclusion, and millions starved to death when drought or plant diseases drove their incomes below subsistence level (O Grada , 1993; Stahl, 2016).

state and collective coercion, as well as a practical openness for using the institutional means of power made available by the modern state to realise this project.

It cannot be reduced to the difference between the naïve laissez-faire attitude of classic liberalism and a pragmatic, pro-state neoliberalism. Neither can it be reduced to the difference between extremists and moderates in the liberal movement through the ages (although that is some of the story). Rather, it must be seen as an unsolved and unsolvable tension inside the very core of the liberal economic project.

7. CONCLUSION: WHAT REMAINS OF THE CONCEPT OF NEOLIBERALISM?

In recent years, we have seen a much more nuanced understanding of the role of the state in neoliberal thinking. This has helped break down the simplistic contrast between state and market that has characterised much economic discussion by demonstrating how the state in neoliberal theory and practice has been used to expand market regulation in society. This realisation is unfortunately often highlighted by contrasting neoliberalism with a caricatured version of the classic laissez-faire liberalism, which is portrayed as a naive rejection of government intervention. Inspired by Polanyi's and Gramsci's analyses, this article has tried to show that this is not the case. If we look at the classic laissez-faire liberalism in the 19th century, a far more nuanced picture appears. We see a much greater openness to the use of state power to construct new markets actively, both in terms of theory and political practice, than portrayed in the simplistic picture. At the same time, we also see differences within the neoliberal movement, and especially Friedman and his followers in the Chicago School are relatively close to the classic laissez-faire tradition. Thus, it seems that the tension-filled love-hate relationship to the state is not a specific feature of the neoliberal movement but, instead, a general tension within liberal economic thinking.

This continuity has led some to refrain completely from using the term neoliberalism. Andrew Gamble, one of the leading English readers of Hayek, for example, speaks of economic libertarianism (Gamble , 2013), while the economist John Quiggin talks about market liberalism (Quiggin , 2010). By giving up the term neoliberalism, however, one loses sight of the fact that the form of liberal ideological hegemony we see today is historically distinct and shaped by specific institutional and ideological conditions. Even though neoliberalism has reinvented, and thus inherited, the dilemmas from the classic liberal period, it is a distinct intellectual formation which can be traced to the Mt. Pelerin Society. This was not only a well-organised movement among intellectuals and wealthy patrons spreading known ideas. You can see distinct theoretical innovations from the network, such as the development of a much more positive view of large companies and their monopoly power (Hayek, 1949). Simultaneously, as neoliberalism was formulated in a period of increasing macroeconomic activism by the state and a strong labour movement, much of the neoliberal project was focusing on criticising and overcoming the Keynesian economic and the welfare state.

In short, it is possible to point to several significant differences between neoliberalism and the classic liberalism. However, it is a fiction that we see a distinct divide between a naïve, classic, laissez-faire liberalism and a state-positive neoliberalism. What we see is, rather, a new phase in a much larger and longer conversation about the relationship between state and market in a liberal economy. Here we see a constant tension within the liberal economic thinking between a desire to limit the state to let the market have freedom, and a continuing need to use just state power to bring this project to fruition.

BEYOND STATES vs. MARKETS:

NEOLIBERALISM, MACROECONOMICS AND DEMOCRACY

Abstract:

The paper will analyse the ideological assumptions at the core of the specific form of neoclassical macroeconomic theory that emerged to eclipse Keynesianism the 1970s. By revisiting some of the central papers and models, such as Kydland & Prescott's 1977 "Time Inconsistency Model", Sargent & Wallace's 1976 "Policy-ineffectiveness proposition" and the microfoundations of the Lucas-critique from 1976, the paper offers a reinterpretation of the main tenets of the tradition of New Classical Macroeconomics (NCM). In policy and scholarly debates, NCM has primarily been seen as a critique of government intervention in the economy. The paper challenges this notion and stresses that NCM is not primarily a critique of government action as such, but rather of the role of democracy and popular participation in governance. This rereading offers new aspects to the understanding of the general relationship between neoclassical economics and neoliberal policy, and casts new light on the understanding of why neoliberal governance has generally not resulted in any substantial rollback of the state in the economy.

1: INTRODUCTION

The concept of neoliberalism has been everywhere in the recent scholarly literature, sparking a flurry of definitions of what exactly constitutes the core of the neoliberal. At the centre of this debate has been an assumption that the core of the neoliberal wave has been a critique of the economic activity of the state. From Hayek's early writings of the 1930s to Friedman's works of the 1960s, the *bête noire* of neoliberal movements has been the state as the organiser and planner of economic activity.

This observation provokes the puzzle of why this evidently successful movement has not managed to roll back the state in any meaningful sense, even after three decades of more or less total hegemony. Large strides have been made in the unravelling of this paradox in recent years, with a closer reading of the ambiguity of the various works of neoliberal theory regarding the state – from the collective work of the Mt Pelerin Society (Burgin, 2012; Mirowski & Plehwe, 2009) or the Chicago school (Davies, 2010; Van Horn, 2011), to individual thinkers like Hayek, Friedman, Röpke or Buchanan (Bonefeld, 2012; Farrant, McPhail, & Berger, 2012; Maclean, 2017; Mirowski, 2009, 2013). The emphasis has been on showing how neoliberal economic thinkers have developed a more pragmatic and positive vision of the state and politics than classical liberalism, letting the state play a greater role.

While this literature has greatly expanded the understanding of the neoliberal project, it still seems unsatisfactory. The problem is that most scholarship seems to be stuck in a binary duality of the state versus markets. This means that even a more nuanced view of the liberal attitude to the state still ends up reproducing a view on society where the ultimate dichotomy is between the economic and political spheres.

This way of seeing society as divided into two opposing spheres of state and markets, with radically different modes of operation is, however, basically a product of liberal political theory. Since the early days of economic liberalism, the idea was to use the market to create a sphere free from the coercion,

violence and dominance of the political world of the state, and instead carve out a sphere of free exchange and free individuals. This is also the self-representation of modern neoliberal theory.

This paper therefore tries to develop an alternative road by suggesting a reinterpretation of the relation of neoliberalism to the state, by deconstructing the division between the economic and political spheres and reading neoliberal economics as a form of political theory. In doing this, the article will draw inspiration from approaches developed within the history of political thought by Quentin Skinner (Skinner, 1969, 2002; Tully, 1988) and his “contextual intellectual history”, and Ellen Meiksins Wood’s framework of “social history of political thought” (Wood, 1995, 2008, 2012). The two thinkers, although they differ widely in methodological approach, share two characteristics that are central for the approach taken here. First, on a methodological level, they emphasise the importance of context and the intentions of authors when reading political texts. Second, on a substantial level, they both offer a critique of the liberal ideas of freedom and democracy.

Using this approach, the article will revisit the central theoretical pillars behind the neoliberal policy revolution of macroeconomics, and interrogate them in their immediate and more macrohistorical context. The focus in the article will be on the rational expectations revolution of the 1970s, and the key papers of central figures such as Robert Lucas, Finn Kydland, Robert Prescott, Thomas Sargent and Neil Wallace.

These figures, through the development of concepts such as “rational expectations”, “time inconsistency theory” and the “policy-ineffectiveness proposition” were successful in a denunciation of Keynesianism and the construction of a new macroeconomic paradigm based on neoclassical microfoundations, New Classical Macroeconomics (NCM). While the more radical propositions, such as the complete renunciation of fiscal policy by governments, were never adopted wholesale by the macroeconomic community (Fine, 2016), they have nevertheless had a profound impact on the exercise of macroeconomic theory and practice in the period since (Backhouse, 2009, 2010, 2005; Ben

Fine & Milonakis, 2012; Offer & Söderberg, 2016), insitituting what Oxford economist Simon Wren-Lewis describes as the “microfoundations hegemony” (Wren-Lewis, 2018).

What emerges as the central theme from such a reading of neoliberal macroeconomics as political theory is the question of democracy²¹ and the critique of democratic governance, rather than the question of state power as such. Here, the question of the power of government versus markets on the abstract level fades somewhat into the background, and a different picture emerges. In this picture, the object of the neoliberal critique of government is not as much government in an abstract general form, but rather the specific form of distortion of the market economy that arose in the post-war era. And basically, all these perceived distortions were the results of democratic influence on economic decision-making. Despite its technical formulation, the neoliberal theories on the sources of government overreach all point to problems concerning democratic governance. It may seem a surprising element of neoliberalism, as the traditions present themselves as the champions of liberty and democracy against totalitarianism (Friedman, 1982; Gray, 1984; Hayek, 2006 [1944]). But the neoliberal definition of democracy is a very restricted one, where popular rule is under strict constitutional curtailment, and a number of scholars have recently pointed to the practical opposition to democracy of neoliberals (Farrant et al., 2012; Maclean, 2017; Mirowski, 2013).

This realisation that the main part of the neoliberal macroeconomic agenda was focused on democracy rather than the state is not only important as a historical revisionist point, but it is becoming crucially important in a situation where the neoliberal project is in deep crisis, and we see increasing tension between capitalism and democracy (Streeck, 2011). Many of these tendencies are direct reactions to the

²¹ The definition of democracy in this article is rather ‘thin’, dealing with the control of state institutions by officials elected by a majority of the adult population under free and universal suffrage. This also means considering liberalism, the rule of law, and democracy as separate entities/principles, in contrast to many classification of ‘liberal democracy’ as simply meaning ‘full democracy’ (Møller & Skaaning, 2012). It also means not considering deeper forms of democratic participation such as deliberative or direct democracy (Held, 2006). The aim of the article is to discuss the real, existing forms of democratic participation, in which elections have been dominant in the period surveyed, rather than a full history of the idea of democracy, which lies outside the scope of this investigation.

attempts to de-democratise the economy that were integral to the neoliberal project. Looking at democracy as the central category makes the real development of neoliberal economic governance much more intelligible. The aim was never primarily the size or reach of the state, but instead the internal organisation of the state.

The article starts in section 2 by outlining the methodological and theoretical approach that, drawing on Skinner and Wood, focuses on the rhetorical, political and social context of the key macroeconomic debates. Then section 3 places the article's approach in the wider literature on neoliberalism, before section 4 presents the main aspects of the rational expectations revolution within macroeconomics. Section 5 then situates this within the immediate polemical context of the debates around macroeconomic governance and the crisis of the activist post-war state as well as in the broader historical context of the tension between economic liberalism, democracy and the state. Finally, the article is concluded in section 6.

2 METHODOLOGICAL APPROACH

In the study of neoliberalism, by far the most attention has been paid to the perceived philosophical leaders such as Friedman and Hayek. Less attention has been given to the figures who formulated the concrete ideas of neoliberal economic governance, rather than providing the normative defences of the general neoliberal project.

I will focus in this article on the wave of new theoretical macroeconomics from the 1970s associated with the introduction of microeconomic methods (called microfoundations) and rational expectations into macroeconomics, headed by Robert Lucas. Despite the fact that the pure form of these theories, in the form of New Classical Macroeconomics, was mostly considered too extreme to achieve complete hegemony in the field of economics, they nevertheless transformed the theoretical basis macroeconomics (Offer & Söderberg, 2016; Watson, 2014). The idea of microfoundations became

completely dominant within mainstream economics (Backhouse, 2010; Ben Fine & Dimitris Milonakis, 2009), especially after the introduction of so-called ‘New Keynesian’ theories from the 1980s, where authors such as Romer and Krugman introduced Keynesian policy elements into the rational expectations framework. Because of the centrality of rational expectations, I refer to the movement as “the rational expectations revolution”.

In a 2004 article, Colin Hay develops a distinction between *normative* and *normalising* theory in the development of neoliberalism (Hay, 2004b). Normative theory, like Hayek’s *The Constitution of Liberty* (1960) or Friedman’s *Capitalism and Freedom* (1982), puts forward philosophical arguments for the merits and benefits of the free market doctrine of neoliberalism with clearly stated normative intentions. *Normalising theory*, on the other hand, provides theoretical or technical solutions to policy problems with clear liberalising consequences, but without any stated normative considerations. This is the frame of Kydland and Prescott’s work on time-inconsistencies or of the rational expectations of the Lucas critique, with their denial of the efficacy of Keynesian demand management policies. This form of theory does not carry explicit normative content, but nevertheless implies clear policy implications – in the case of the Lucas critique, the point of state non-interference in an economic recession or in the case of the time-inconsistency thesis, a clear implication of central bank independence.

With a few notable exceptions, such as the strong influence of Hayekian think-tanks in the early Thatcher years (Cockett, 1995), it has been normalising theory that has been the dominant form in which neoliberal ideas have entered into policy circles across the western world. Hence the prevalence of both quantitative neoclassical economics over Austrian school philosophical economics and central bank independence over Hayekian free banking. This is true in economics science, international organisations like the IMF and the World Bank, and at the national level (See (R. Backhouse, 2009; Ban, 2015, 2016; Chwioroth, 2009; Fine & Milonakis, 2009; Fourcade, 2006; Hay, 2004a; Stahl &

Henriksen, 2014). As such it seems worthwhile to look at the normalising theories and interrogate the normative content that lies underneath the surface of technical neoliberalism.

2.2 Reading economics as political theory

Reading economics as political theory implies, of course, that one doesn't accept the dictum that economic analysis lies beyond the purview of politics, despite its technical focus. Furthermore, one has to challenge the standard labelling of economics as a positive rather than a normative science. Despite these protestations, probably no other discipline of social science has developed in such a tight correlation with policy trends (Backhouse, 2009, 2010); no other discipline has had the public prestige and influence associated with economics (Marion Fourcade et al., 2014); few other disciplines have experienced the same sort of acknowledgement from outside forces through the constructions such as the 'Nobel prize' in economics (Offer & Söderberg, 2016); or from the investment of private money in think tanks and university chairs (Blyth, 2002; Maclean, 2017; Mayer, 2016).

The main condition of looking at economic theory as political intervention is understanding the historical context. A powerful recent example of the importance of this can be seen Matthew Watson's exploration of Ricardo's theory of comparative advantage (Watson, 2017), where he shows that Ricardo's famous formulation in support of free trade, using the illustrative example of England and Portugal, was actually formulated in a situation of very unequal trade relations between the countries, regulated by government treaties, and backed by force. As such, the foundational formulation of free trade theory was framed in a way that put the very idea of 'free' un-coerced trade relations into grave doubt. This article aims in the same way to investigate the sort of 'government' that was really being discussed in the debates on macroeconomics in the 1970s. In order to do this, the article will draw inspiration from two central figures from intellectual history.

2.3 Quentin Skinner

In reading macroeconomics as political interventions, it is crucial to explore the rhetorical and societal context in which those interventions were made. Here, I draw inspiration from the methodological works undertaken in recent decades within intellectual history, especially in the history of political thought. The most important figure here is the intellectual historian Quentin Skinner. Beside his specialist work on Machiavelli and Hobbes, Skinner has written profusely on methodology, and the need for *contextual* understanding in the history of political theory (Tully, 1988).

Inspired by Wittgenstein's notion of *language games* and Austin's theory of *speech acts*, Skinner sees texts as essentially a form of intentional act, that is, as purposeful interventions in debates. As such, political texts cannot be seen as ephemeral entities, but rather as attempts to accomplish something in the debate at the time. In order to understand the meaning of political texts and the beliefs held in them, it is therefore necessary to understand the polemical contexts in which they operate (Skinner, 1969, 2002). Skinner describes how the aim is to: "interpret specific beliefs by placing them in the context of other beliefs, to interpret systems of belief by placing them in wider intellectual frameworks" (Skinner, 2002)

4) This intellectual context encompasses the concrete linguistic context (which concepts are being employed, defined and redefined), as well as the broader social context (which actors are engaged in battles over certain political objectives). The focus on 'rhetorical strategies' and intentionality means that the focus for Skinner is less on the meaning of the texts as such, but rather on the intended effect the text is presumed to have on its audience in the intellectual milieu. Authors of texts and theories are never just describing the world, they are always doing something to the world with their works (Skinner, 2002, 128).

2.4 Ellen Meiksins Woods

The concept of historical context is further developed by the Marxist historian and political scientist Ellen Meiksins Wood under the framework of “the social history of political thought”. Wood’s approach is to a certain extent developed as a critique of Skinner and the Cambridge school. While she follows Skinner in the focus on context and follows him in viewing the history of political thought as “essentially the history of ideologies” (Wood, 2008, 7), she also criticises the Cambridge school, which she sees as focusing overtly on the intellectual, linguistic context, while ignoring the broader social and economic context under which the political theories are formulated, and in which they try to intervene. For Wood as a Marxist, the relevant social context is especially related to the social question and the relation between ‘producers and rulers’ in any given social context. She describes how:

“To understand the social practices and cultural products of any time and place, we need to know something about those conditions of survival and social reproduction: something about the specific ways in which people gain access to the material conditions of life; about how some people gain access to the labour of others; about the relations between people who produce and those who appropriate what others produce; about the forms of property that emerge from these social relations; and about how these relations are expressed in political domination, as well as resistance and struggle. (Wood, 2008, 141)

The stress on the social context means that the focus is not simply on the biographical or polemical context in which the formulation of theory took place. While such considerations are important, they also have the disadvantage of restricting the relevance of the texts and theories to the concrete historical circumstances. In order to understand the relevance of economic or political theories, and if we indeed are to conceptualise them into a larger set of theories on political and social change (be this IPE, sociology or history), the focus also needs to be on the issues of general relevance in these texts.

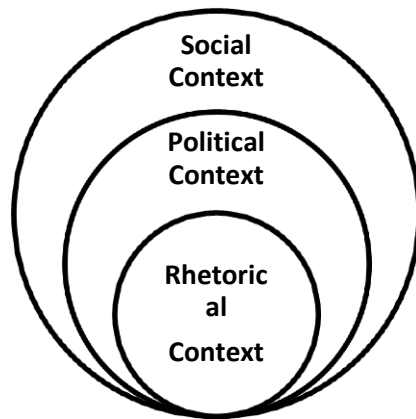
2.5: Application in practice

As mentioned above, there are large differences between the methodological and theoretical approaches of Skinner and Wood. Nevertheless, I will argue that it is possible to use their divergent perspectives as the basis for a common, but differentiated notion of different levels of contextualisation. This represents a simplification of the context of the two authors that perhaps does justice to neither²². I will argue, however, that combining elements from the two approaches allows for a more comprehensive model of contextualisation that I will develop below.

I propose three levels of contextualisation: the immediate rhetorical context, the political context and the social context. At each of these levels, the texts under analysis can be seen as purposeful interventions in the ongoing debates and contestations, under the restrictions of the limits of the horizon of debates at the time and utilising the intellectual resources available. Here, the rhetorical context represents the immediate rules for valid argumentation in the local intellectual field. The political context represents the broader political contestations into which the local intellectual debates are embedded, and the social context represents the basic social questions of the society in which the debates takes place, including the state form and the distribution of property and rights. While this analytical model, as all forms of categorisations of the social world, involves a reduction of a multiplicity of grey zones and overlaps into discrete boxes, it can nevertheless be instructive to view the three levels of contextualisation as concentric circles of greater generality and abstraction, so that each higher level includes and envelops the former.

Figure 1: 3 levels of contextualisation

²² Without trying to integrate the two perspectives on a theoretical and ontological level, one can, in the model presented above, see Skinner as focusing on the Rhetorical and Political levels, while Wood focuses on the Social and Political context.



3. NEOLIBERALISM, STATE AND DEMOCRACY IN THE LITERATURE

So how does this reading of neoliberal economics as political theory fit into the state of the literature on neoliberalism and politics? The issues of state and government have been at the forefront of the neoliberal wave that has swept the world in the last few decades. From Hayek to Friedman to the proponents of public choice and New Classical Economics, the explicit issue at the centre of the liberal economic rhetoric has been opposition to the encroachment of the state, which in many countries grew to new proportions in the post-war period. A large proportion of those analysing and criticising neoliberalism have taken this claim at face value. Authors such as Joseph Stiglitz or Fred Block (Block & Somers, 2014; Stiglitz, 2009), have used the term “market fundamentalism” to denote what they see as a naïve and dangerous attempts to roll back the state and let loose the powers of supposedly free markets. While this denotation surely covers some of the more exotic specimens on the economic right, such as the Mises Institute, it is not an adequate description of the broad sweep of the neoliberal movement. At times, libertarian movements have had temporary political success, such as in the Ron Paul primary campaigns of the 00s, or the Brownback governorships in Kansas, but most neoliberal

governance has been much more pragmatic in its attitude to state power, and the period of neoliberal hegemony has not witnessed a shrinkage of the state in any meaningful way (Ban, 2016; Cahill, 2014).

As such, while the idea of neoliberalism as market fundamentalism has a certain rhetorical effect, the reification of the market-state divide, and the underestimation of the role of government power in the neoliberal project, has led a range of scholars to search for more nuanced approaches.

One recently popular way of transcending the focus on the opposition between state and market is associated with a Foucault-inspired reading of the neoliberal movement. With a basis in Foucault's (2008) lectures on bio-politics in 1978-9, this approach views the aim of neoliberalism not as rolling back the state, but instead as developing a generalised form of market normativity that can be rolled out over society as a whole. According to Foucault, the ultimate objective of the neoliberals was not to free market forces through a rollback of the state. Instead, the aim was to develop a new governance of the self, which allowed the tools and techniques of the market to be spread to more and more areas of life. In this way, the economics of individual competition and the rationality of the market provided a normative model for society (Michel Foucault, 2008, 131). This idea of neoliberalism as essentially a redefinition of freedom on an individualised level was developed into a large literature on governance headed by figures such as Nikolas Rose (Rose, 1999) and Mitchell Dean (Dean, 2012).

In recent years, this approach has found powerful expression in Wendy Brown's *Undoing the Demos* (Brown, 2015). Here, she analyses how the pervasiveness of neoliberal market normativity and the reduction of more and more social interaction to something resembling market exchange both undermine key institutions and threaten the very idea of political democracy.

While this focus on governance practices and individual subjectivity definitely enriches our understanding of the spread of neoliberalism, the very pervasiveness of the concept also creates problems. If neoliberalism is everywhere, then the question is how to delineate it from other strands of

thought, or conceptualise alternatives? In some ways, the radical, pervasive nature of this approach to neoliberalism removes the specifically *political* element from the analysis. By focussing on very broad forms of cultural and discursive power, the governance literature has turned the study of neoliberalism towards the more general issues of subjectivity and individualisation in contemporary society, with less to say on the specific issues relating to macroeconomic governance. The approach employed in this paper therefore applies a more limited notion of neoliberalism as a set of specific economic ideas, and their implementation in macroeconomic policy.

A way of getting nearer to the contradictory relationship between state and politics in liberal economic governance is through the idea of *depoliticisation*, the process by which concepts and elements are removed from the sphere of political contestation and to a realm of technical deliberation.

In his article "The politics of economic management in the 1990s", Peter Burnham (1999) describes *depoliticisation* as a specific attitude to economic governance. Here, he describes the process of transition, from the politicised management of the post-war period, where the weight was on discretion-based management and the direct steering of the economy, to the depoliticised management of the 1990s, where the emphasis was on rule-based management, and "rule through market mechanisms"²³

...the term 'depoliticisation' should not be taken to mean the direct removal of politics from social and economic spheres or the simple withdrawal of political influence. Rather, depoliticisation is a governing strategy and in that sense remains highly political. In essence, depoliticisation as a governing strategy is the process of placing at one remove the political character of decision making. In many respects state managers retain arms-length control over crucial economic processes while benefiting from the distancing effect of depoliticisation.

(Burnham, 1999, 47)

²³ This avenue, congruent with, for example, Samuel Knafo's (Knafo, 2013) work on the 19th century Gold Standard, shows how apparently apolitical and technical rules and discretion can be used as tools to further a certain form of political project.

The idea of depoliticisation allows us to analyse the paradoxical²⁴ nature of liberal economic government. On the one hand, it avoids collapsing the practices of governance into a direct realisation of ideological self-representation, as is the danger of the market fundamentalist approach. On the other hand, it avoids dissolving the practice of neoliberal governance into a generalised system that encompasses so many aspects of late capitalist society that it obfuscates the specific dynamics of economic policy at the core of the neoliberal project.

The idea of depoliticisation as a political project is the transformation of the political apparatus of the state to be more conducive to a project of liberal capitalism. As such, budgetary rules, the strict constitutional restriction of fiscal and monetary policy or the setting up of independent central banks are all ways of changing the terrain of the political struggle in subtle institutional ways.

Looking at the neoliberal project, however, I will argue that depoliticisation is in itself too vague a term to understand what is going on. Outside some insignificant fringe circles, few neoliberals have had problems with active government power in practice. Figures such as Mario Draghi and Allan Greenspan have been popular as central bankers with wide discretionary power. Again, few central players protested the active hand of government in the bail-outs of banks by the governments in the wake of the 2008 crash. What has been targeted most successfully has not been discretionary political action as such, but rather the democratic component of such actions. In particular, the political scopes of national parliaments, as the most susceptible to popular pressure from movements and interest groups, have been curtailed heavily in the last decades (See Crouch, 2004; Streeck, 2011)). As such, it might be more fitting to speak of *dedemocratisation*, than *depoliticisation*.

²⁴ A theory that stresses the inability of states and government to intervene successfully will always have a contradictory attitude towards the proper role of governments. Nevertheless, economic liberals, as ideologically dominant in both the period of the gold standard and today's neoliberal era, have often had the reins of power.

I will argue that this is not an accidental development, but that this intention is reflected in neoliberal theory. De-democratisation is not a bug or an unintended by-product of neoliberalism, but the central feature of the neoliberal reorganisation of macroeconomic policy that was initiated by the rational expectations revolution in the 1970s. This is the story that we will explore below.

4. THE RATIONAL EXPECTATIONS REVOLUTION

The rational expectations revolution normally traces its lineage to Friedman's 1968 presidential speech to the American Economic Association (Friedman, 1968). Here, Friedman attacked the idea of a stable trade-off between inflation and unemployment. This idea, often connected to the Philips curve, was criticised by Friedman for not integrating the expectations of market actors in such inflationary policies by the government, and thus underestimating the self-negating factors of inflationary expectations in Keynesian fiscal and monetary policies.²⁵

Despite this, Friedman was successful in framing this idea of a break with a supposedly naïve assumption at the heart of Keynesian approaches to fine-tuning the economy; and his wider project of macroeconomic analysis based on inflationary expectations of microeconomic actors, and a policy based on rules rather than political discretion, spawned a virtual revolution within macroeconomics. It was not Friedman, however, but rather Robert Lucas who proved to be the key figure in the theoretical formulation of a new approach²⁶. This happened through the formulation of the rational expectations

²⁵ A recent book by James Forder (2014) has demonstrated that this conception of the Philips curve is mainly a myth. Not only did Philips in his 1958 paper not propose the idea that governments could simply choose a point on a stable inflation-unemployment curve, but there was no general idea of a clear and stable trade-off between inflation and unemployment in either academic or policy circles before the 1970s.

²⁶ Robert Lucas (...) held sway as the leading light of neoliberal model making between the late 1970s and the 1990s. (Offer & Söderberg, 2016, 23)

hypothesis and his so-called Lucas critique of the theoretical underpinnings on any sort of government fiscal activism and Keynesian demand management

Lucas's project, described by Robert Backhouse as a "quest for a rigorous macroeconomics" (Backhouse, 2010,117), was an attempt to solve the tension within post-war economics between micro- and macroeconomics. The mainstream of the discipline, as codified by Paul Samuelson and his paradigmatic 1948 textbook "Foundations of Economics" (Samuelson, 1998) in particular, was dominated by the so-called "neoclassical synthesis". This was a combination of a neoclassical apparatus drawn from Marshallian marginalism in microeconomics, and a certain form of formalised Keynesianism, as developed by Samuelson and Hicks in the years following the publication of Keynes's *A General Theory of Employment Interest and Money* (see Hicks, 1937). This synthesis included a contradiction between the neoclassical theories of microeconomics and Keynesian macroeconomics. The neoclassical microeconomic theories state that the rational actors in the economy would naturally gravitate towards market clearing equilibrium through the mechanism of market prices. On the other hand, the Keynesian theories of macroeconomics posit the fickle character of economic actors and the possibility of an economic equilibrium at less than full employment, and thus significant room for government intervention.

Lucas argued that the theories of macroeconomics needed a firm foundation in the rational actors of microeconomics, and that these actors, in contrast to "un-rigorous" Keynesian ideas of "animal spirits", would have to be assumed to make rational choices, based on the perceived long-term consequences of government economic policies.

This meant that any government action would always already be incorporated into the actions of the market actors. In the case of deficit spending, the rational actors would automatically assume that deficit spending now would mean further inflation or taxation in the future, and accordingly lower their investment now, leading to the opposite of the intended effect (Lucas, 1976). This gave a new

theoretical credibility to the monetarist critique provided by Friedman's presidential address, which stated that government attempts at countercyclical interventions would always be mistimed because of time lag, and that they, even if well-intended, would lead to perverse effects.

4.2 New Classical Macroeconomics

Robert Lucas not only formalised Friedman's insight around rational expectations into the framework of neoclassical microeconomics, he also radicalised the attack on the policies of Keynesian demand management. These were not only problematic under special circumstances, but were, due to the rational anticipation of market actors, even theoretically impossible in the long run. This coined a new field of New Classical Macroeconomics (NCM) that, alongside Lucas, was spearheaded by Robert Barro, Thomas Sargent and Neil Wallace (Barro, 1976; Sargent & Wallace, 1976).

A common denominator of these theories was the notion that government action, however well-meant and benign, is doomed to fail because of the anticipations of the rational actors of markets. The adaptive expectation of these actors would automatically price the long term fiscal and monetary consequences of current government policies into their current investment decisions²⁷. The ideas of this school are probably best summed up in Sargent and Wallace's so called "Policy-ineffectiveness proposition" (Sargent & Wallace, 1976), where they contest the notion that governments can effectively use monetary policy to influence the level of employment.

While the theoretical and policy implications of NCM were too extreme for many to adopt wholesale, the theories nevertheless had a large impact. In the economics profession, the idea of microfoundations became a basic precondition of theoretical orthodoxy, and with the development of the so-called new

²⁷ Given the logically maximal scope of this rationality and foresight, all government intervention in the economy would tend to be detrimental as the welfare preferences of the electorate would not be aligned with market actors.

Keynesian theories that accepted the need for microfoundations in the 1980s, this came to be accepted by the dominant mainstream of the profession (Fine & Milonakis, 2009; Offer & Söderberg, 2016).

On the enduring influence of Lucas' brand of rational expectations, Offer lays out how, of the new theories introduced in the 1970s, "rational expectation was the most insulated from falsification, the most empirically empty and in terms of adoption by economists, by far the most successful. This doctrine continues to be influential in macroeconomics and is practiced across ideological divides by Chicago market fundamentalists and by liberal-minded 'neo-Keynesians'" (Offer & Söderberg, 2016; Wren-Lewis, 2018). These theories provided critical delegitimation for the policies of full employment that had characterised the post-war Keynesian paradigm, at a time when they were under attack from several sides. By denying that the instruments of demand management had the ability to actually deliver, NCM further weakened the paradigm at a crucial moment of crisis.

4.3 Time inconsistency

Another important development of the project of NCM came with the "Time inconsistency model" developed by Finn Kydland and Edward Prescott (Kydland & Prescott, 1977). They argued that the investment decisions of market actors were shaped by the expectation of future government policies. This meant that attempts at countercyclical policy, even if they made sense in the short term, would be detrimental in the long run, as market actors would adapt to expectations of future inflation or taxation, and thus lower their current investment. The way out of the bind of time-inconsistency is to make credible commitments to keep monetary policies stable in the long run. But here the theory runs into the inability of governments to make optimal policy decisions when the inherent short time horizons of the elected officials means that they always will have to take the short term preferences of voters into consideration at all times.

This means institutionalising the ability to make credible commitments. The most important area here was the fight against inflation, and especially the threat of future inflation. This means that in order to find an optimal monetary policy that conforms to the preferences of the investing class, monetary policy decision-making has to be taken out of the hands of politicians, and put into the hands of actors not bound by voter pressure. The reason that they should not have discretion, the authors argue, “is not that they are stupid or evil but, rather, that discretion implies selecting the decision which is best, given the current situation. Such behaviour either results in consistent but suboptimal planning or in economic instability” (Kydland & Prescott, 1977, 487).

Kydland and Prescott themselves imagined a set of rules restricting the ability of policy actors to enact countercyclical measures. In practice, they suggested a two-year lag period on all monetary and fiscal legislation by congress that “would make discretionary policy all but impossible” (Kydland & Prescott, 1977). This radical proposal was never tried out in practice. The translation of the time inconsistency principle into policy was instead primarily done through the principle of central bank independence, as laid out by Alesina (Alesina, Mirrlees, & Manfred, 1989), a later follower of time inconsistency theory. This position became policy orthodoxy in the 1980s and 1990s (McNamara, 2002), and was later supported by Prescott as being in line with his work (Klein et al., 2013) 557). Furthermore, Kydland and Prescott’s theories were directly cited as arguments for the persistence of strong non-majoritarian institutions in the EU-system (Majone, 1996). Central bank independence generally took two forms. The first involved a firm constitution that bound the central bank to certain market conforming policies, such as price stability. This is the model for the German Bundesbank and, later, the European Central Bank. The other was a wider scope of discretion, with credibility assured by the choice of directors and staff that had the trust of the markets, such as in the case of the US Federal Reserve or the Bank of England.

5. RHETORICAL, POLITICAL AND SOCIAL CONTEXT

In order to understand the meaning of the central papers of the rational expectations revolution, it is firstly necessary to look at them in the intellectual context into which they were formulated. This will involve three steps. First, a look at the immediate rhetorical context of post-war macroeconomics; second, a wider view of the broader political questions that shaped the macroeconomic debate in the 1970s; and third, a look at the general tensions inherent in the capitalist order.

5.1 Rhetorical context – mathematics and post-war economics

The arguments put forward in the papers discussed have the form of formalised argumentation in a mathematised form. While the roots of the mathematical neoclassical theories applied can be traced back to the rise of marginalism in the 1870s (Watson, 2005), the standardised form of economic arguments can be traced back to the formalisation and standardisation processes developed in the post-war US period (Backhouse, 2010).

Here, a range of young economists, with Paul Samuelson at MIT as the most central, developed a new form and language of economics that would soon come to dominate economics in the West. These intellectual entrepreneurs largely drew on resources developed in the 1930s by Keynes who, using Marshall's microeconomics as formulated in *Principles of Economics* (Marshall, 2009) as the starting point, first developed a real framework of *macroeconomics*. Much ink has been spilled on the question of to what extent Keynes' theories represent a break with or development of the neoclassical economics of Marshall and the marginalists. Without resolving this question here, it suffices to state that the way Keynesianism was formalised by economists such as Samuelson and Hicks, a way which came to dominate in economics, there was no such conflict (Hicks, 1937; Samuelson, 1998). Instead, Keynesian

macroeconomics and neoclassical microeconomics were integrated into a common framework known as ‘the neoclassical synthesis’.

The union of the two was always uneasy though, with different assumptions dominating the micro and the macro level. It was this tension that the actors in the rational expectations revolution utilised to great effect. Claiming that microeconomics presented the most rigorous set of principles, the ideas of ‘micro foundations’ set up a principle that every macroeconomic theory had to be explainable in the form of the individual action of agents under the assumptions of rationality. In this way, what Roger Backhouse describes as the “quest for rigorous macroeconomics” (Backhouse, 2010, 117) presented the virtual colonisation of macro- by microeconomics. This mobilisation of existing intellectual resources might be a reason why the normalising mode of the rational expectations revolution was able to gain more traction within economics than the more normative work of the earlier generation of neoliberals.

5.2 Political Context – crisis of the Keynesian hegemony

If we look at the wider political context around the formulation of the theories of the rational expectations revolution, the central questions in the macroeconomic debates were shaped by the structure and apparent crisis of the Keynesian paradigm of the post-war order.

In the post-war period, one of the central questions was what the proper role of the state in the economy should be. This question of course developed around an ongoing dichotomy of liberal thought between what is considered private (and thus economic) and what is public (and thus political). In classical liberalism, the ideal was, even though political practices would often differ, that the state

should provide a neutral framework that allowed for economic transactions to take place, but that all substantive productive and commercial activity should take place in the private realm²⁸.

The post-war order had changed that in two crucial ways (B. Eichengreen, 1996; E. Hobsbawm, 1994):

- the emergence of a public sector of state-owned enterprises producing for the market, and of the welfare state, involving de-commodified production in fields such as health, transportation and infrastructure.
- The emergence of the government and the central bank as powerful planners of overall economic activity, via new and powerful tools of fiscal and monetary policy.

This new role of the state developed through the rise of a new form of government activism in the fiscal and monetary sphere, inspired by Keynesian macroeconomics. The dominance of Keynesian theories in economic governance in the post-war era is well described in the literature (Eatwell & Milgate, 2011; Hall, 1989, 1993; Hay, 2001; van der Pijl, 1989; Wolff & Resnick, 2012). Keynes's theories were, on the surface, about the stabilisation of the capitalist economy through the smoothing of the business cycle and the prevention of the crisis of unemployment. And it was this moderated form of Keynesian macroeconomics that was imported into the curricula of economics, by figures such as Samuelson and Hicks (Backhouse, 2010; Hicks, 1937; Samuelson, 1998).

But the Keynesian system of macroeconomic governance also meant a reconfiguration of the capitalist economy on a deeper level. Keynes was a firm believer in private property and the capitalist market economy. But by taking the control over the overall level of investment in the society out of the hands of private investors, Keynes's program ultimately involved a major shift in power from the owners of private capital to elected governments. In the *General Theory*, Keynes describes this as “the euthanasia of

²⁸ This denial of state intervention in liberal economic theory, should not be seen as directly mirrored in a denial of the use of state power in practical liberal economic governance. For more on the ambiguous relation to the state in the history of economic liberalism, see (Stahl, 2017).

the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity value of capital”, and furthermore describes how the saving and investment function carried out by the rentier class should be taken over by the “communal saving through the agency of the State” (Keynes, 2008 [1936], 235). This form of macroeconomic governance was part of a wider development, where the understanding of the role of the state was changing. The experience of common wartime suffering and a widened organisation of labour meant momentum for the idea that the state had the duty and the obligation to look after the social and economic welfare of its citizens gained widespread acceptance (Padgett & Paterson, 1991).

This idea of the government as an investor of last resort and guarantor of full employment instigated a tension between the rentier class and the voting public. Michael Kalecki had already pointed out this tension in his 1943 essay ‘Political aspects of full employment’ (Kalecki, 1943). While full employment policies might lead to higher overall economic output, and thus potential profits, it would also lead to a fall in the social power of the owners of capital. As the state could step in to ensure lagging investments, it was no longer dependent on placating the policy preferences of the business sector in order to induce them to invest and thus ensure economic growth.

This meant that the problem facing the neoliberals of the post-war era was not the general problem of labour against capital, but instead the conflict between the rentier class and the (democratised) state. Kees Van der Pijl described the situation as follows: “[Keynes] ‘euthanasia’, however, did not fail to raise profound concern on the part of the propertied classes. The spectre of a democratic state taking an active role in managing the economy was never accepted, even though the voices of dissent were briefly muted when it seemed social revolution was around the corner” (Pijl, 2009, 45).

In order to look at this in more detail, we need to go into the concrete forms of the new liberal ideas around economic governance and the state that became prominent in the 1970s.

5.3 De-democratisation of macroeconomics

The environment that the new wave of anti-democratic macroeconomics emerged in was one of conflict, not only between labour and capital in the sphere of production, but also between the voting and the investor classes in the political sphere. The combination of rising inflation, falling growth rates, and uncertainty in the long-term prospects of profitability, meant that it was increasingly impossible to combine a successful capitalist economy with a successful parliamentary democratic state (Lindblom, 1982).²⁹ Here, the new wave of new classical macroeconomics presented itself as a way of getting out of this unsolvable dilemma, by strategically limiting the power of democratic governance within the state. Through the theoretical insertion of rational expectations and micro-foundations into the macroeconomic models, the school attempted to demonstrate the inability of governments to intervene in the market economy and produce more optimal outcomes.

This has been read by both proponents and detractors as a way of depoliticising the field of macroeconomics, thus only leaving the state with the tools of long-term supply side reforms. If we look at the practical consequences of the rational expectations evolution, such as budgetary rules and independent central banks, the consequences have not resulted in a reduction of state power as such, but rather the transfer of power from elected parliaments to unelected officials, administering with a set of rules. And if we see the objections to an active government macroeconomic policy formulated in theories such as “time inconsistency hypothesis” and the “policy-ineffectiveness proposition”, what is criticised is not really the presence of political decisions, but rather the arbitrary nature of democratic politics. That is, because an unrestricted popular majority always has the possibility of rolling back earlier decisions, democratic rule was seen as far too unpredictable for effective economic governance.

²⁹ The development and consequences of this conflict have been masterly described by Wolfgang Streeck in his 2014 *Buying Time* (Streeck, 2014)

In order to get a form of governance that allowed for predictability and credible commitments, the democratic influence on important macroeconomic decisions had to be rolled back.

The focus on rules rather than discretion does of course not rule out democratic involvement in itself. But the sort of long timeframes that the authors expect in practice means that parliaments, and thus electoral politics, would not exercise any meaningful role in everyday economic governance. In this context Kydland and Prescott suggest a two-year time delay on any macroeconomic bill passed by congress, in practice excluding the democratic legislature from any role in governing the economy. In all of the new economic theories, one single claim underlies them all. The state cannot, and should not, change economic outcomes. As such, there is not only a normative assumption but also a clear status quo bias in favour of the current owners of wealth.

5.4 Social context – capitalism and democracy

The 1970s was by no means the first period that witnessed tension between an economy characterised by concentrations of private property and a political order characterised by a representative government with general suffrage. Instead, the discovery of the economic problems of popular democracy in the new theories of macroeconomics in the 1970s can be more properly seen as a rediscovery of a much older liberal ambiguity towards democracy that is as old as liberal economic theory itself. In Ellen Meiksins Wood's major work *Capitalism versus Democracy* (E. M. Wood, 1995), she shows how liberalism has had an uneasy connection to democracy from the very start of the early modern period.

Liberalism was from its earliest conception a movement of the property-holding middle class that wanted the protection of life, body and property from the overreach of the monarchical state. In this project, liberals drew inspiration from the sort of lordly privileges that the aristocracy had managed to

grapple from the monarchy during the period of high feudalism – the most prominent form found in the Magna Carta of medieval England³⁰.

This liberal political project was essentially an attempt to use the rule of law to set up protections for private property against the encroachment of the state as well as from the unpropertied majority (Wood, 1995, 2012). Sometimes, this quest for a constrained state and personal liberty demanded alignment with the popular classes against conservatives. However, whenever the threat from the reactionary forces of absolutism became less serious, there was no desire from liberals to introduce general political participation. Thus, the preferred constitution for 19th century liberals was not one that entailed a system of full parliamentary sovereignty and universal suffrage, but rather a mixed constitution with elements of monarchy, democracy and aristocracy, and with strict property requirements for voting and the holding of office (Losurdo, 2011). Montesquieu became an influential figure here with his notion of ‘moderate government’, which was based on a division of power by the combination of monarchy and constitutional elements (Montesquieu 1794, book 5§14). Even John Stuart Mill, arguably the strongest nineteenth-century proponent of an inclusive liberalism, feared the prospect of majority rule and wanted to set up protections of the propertied minority, such as extra votes for the propertied and educated, and restrictions for servants and recipients of public relief (Mill 2010, chap 8 sec 1).

5.5 Differences from classical liberalism

While the new anti-democratic theories of macroeconomics were to a certain extent the rediscovery of earlier liberal anxieties, there are also considerable differences.

³⁰ Magna Carta, in contrast, was a charter not of a master-less demos but of the masters themselves, asserting feudal privileges and the freedom of lordship against both Crown and popular multitude, just as the liberty of 1688 represented the privilege of propertied gentlemen, their freedom to dispose of their property and servants at will” (E. M. Wood, 1995) (Kindle Locations 4062-4065).

The main solution of 19th century liberalism to the fear of popular rule was through the restriction of partitions in the political process for the popular classes. This could take the form of property qualifications on the vote through the division in an active and passive citizenship. At the international level, the scope of monetary independence of governments was restricted by the Gold Standard.

The problem for a new generation of economic liberals was that these tools seemed impossible to implement in the post-war world. While there are a few economic liberals, such as Hans Hermann Hoppe from the Von Mises Institute (Hoppe, 2001), who reject electoral democracy completely, the vast majority finds this position far too extreme. Furthermore, a direct restriction of the suffrage or other forms of political participation proved ideologically toxic in the post-war period, especially with the importance of democracy in the US Cold War struggle with the one-party states of the Soviet Bloc.

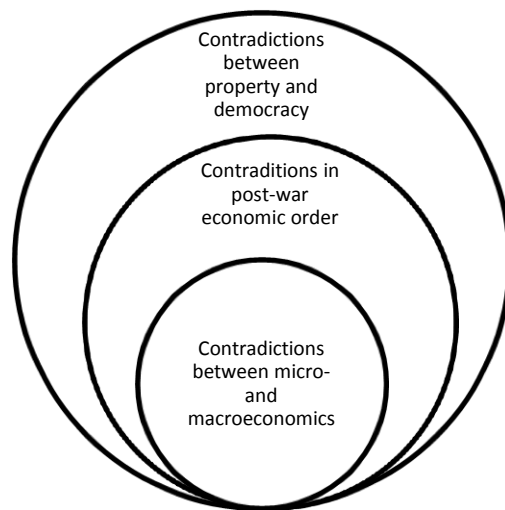
The solution to the tension between economic liberalism and popular democracy was thus not to restrict access to political participation, but rather to rein in the reach of democratic state power. The methods aimed to bring the modes of decision-making in macroeconomic matters into line with the needs of investors for political predictability and looseness of regulation.

In fiscal policy, this meant the limitation of attempts at countercyclical measures or full employment policies through the introduction of budgetary rules or international norms, as in the case of the Eurozone constitution. In monetary policy, this meant the complete removal of the area from political and democratic deliberation, instead leaving policy formation to independent central banks, where appointed bankers were thought to have more “credibility” in the eyes of the investing class. Here the

language of technical economics was used as an argument for excluding parliamentarians from the supposedly complicated world of finance and monetary matters.³¹

An overall summation of the contradiction at play in the rhetorical, political and social context in the debates around macroeconomics, government and the state, can be seen in figure 2.

Figure 2: Specific context for the rational expectations revolution.



6. CONCLUSION

The article has presented a reinterpretation of the relation of neoliberalism to democracy and government through a reading of the central papers of the neoliberal macroeconomic theory of the 1970s as political interventions, inspired by approaches to contextualisation from intellectual historians such as Quentin Skinner and Ellen Meiksins Wood. This implies a focus on the strategic use of

³¹No-one has explained, at the time or since, why the immense technical proficiency needed to undertake heart surgery or create a national train schedule, does not exclude parliamentary sovereignty over health or transport policy while the technical minutia of monetary policy excludes them from this area.

rhetorical and intellectual resources available in the immediate context, as well as the broader political and social context.

This approach was applied to some of the central papers in macroeconomics that were crucial in reshaping the field in the 1970s as part of the rational expectations revolution. The article's focus is thus not primarily on the normative theory of neoliberalism, as formulated by Hayek or Friedman, that has been thoroughly discussed in the literature on neoliberalism in recent decades (Blyth, 2001; Burgin, 2012; Cockett, 1995; Harvey, 2007; Mirowski & Plehwe, 2009; Peck, 2010), but instead on a form of those theories which represents the more technical and mathematised versions of neoclassical economics that came to dominate the academic and political sphere. The main point of this reinterpretation is that the aim of the rational expectations revolution was not, as is often assumed, a rollback of the state from the economy. Rather, the aim was a removal of the specific democratic influences on economic policy that posed a threat to the confidence of investors in future profits, and thus to the health of the capitalist economy. In the short term, the democratic influence is deemed as problematic in this literature because it produces a chaotic, unpredictable element that excludes the sort of stable, credible commitment that is necessary to induce investments. And in the long term, the consequence of general suffrage is constantly increasing public spending.

As a result, there is an assumed contradiction between economic performance and democratic participation in economic and fiscal affairs. The solution of the neoclassical liberals is to prioritise the health of the capitalist economy by insulating the sphere of economic decision-making from the whims of elected politicians – under the assumption that the public has an interest in binding itself in order to maximise economic outcome. The implication of the theoretical ideas of rational expectations and time-inconsistency was a virtual removal of fiscal policy as an active measure of countercyclical policy, and a parallel increase in the importance of monetary policy; a development coupled with the removal of monetary policy decisions from elected politicians and the placement of these decisions into the

hands of central bankers in newly independent central banks. This development has been seen as a move of de-politicisation. But as we have seen, there is actually a lot of political discretion in the system as it is. It is just not wielded by elected politicians, but instead by un-elected officials in the central banks.

This reinterpretation, with its focus on democracy, furthermore has the virtue of resolving one of the central paradoxes of the study of neoliberal policy: why three to four decades of hegemony of a purported anti-government ideology have not shrunk the size of the state. This misunderstanding can be understood by realising that the neoliberals did not have a problem with the state as such – instead it was with the specific democratic parts of the state governance that constituted a problem. This is the same sort of argument as that made by 19th century liberals in the era before universal suffrage.

The interpretation of the neoclassical liberals was that the crisis of macroeconomic policy of the 1970s was basically a contradiction between the needs of investors and the aims of the voting public. In order to solve the macroeconomic problems, this contradiction had to be resolved in favour of investors. Here the aim was not a rollback of the state, but instead an internal reorganisation of the state, such that the balance of class forces within the state apparatus was tipped in favour of investors. This was not done by restricting the access to vote, as was the preference of many 19th century liberals, but instead by a restriction of the domain of democratic deliberation in economic policy.

NEOLIBERALISM WITH SCANDINAVIAN

CHARACTERISTICS:

THE SLOW FORMATION OF NEOLIBERAL COMMON SENSE IN

DENMARK

Abstract:

This paper traces the ascension of liberal economic ideas in the macroeconomic establishment in Denmark since the 1970s. Based on a systematic analysis of documents from the Danish government and the Economic Council published between 1970 and 2004, this paper demonstrates that Denmark experienced a marked shift in paradigms during this period. Full employment Keynesianism dominated the 1970s and neoclassical liberalism became dominant from the late 1980s and early 1990s on.

The paper argues that the nature of this paradigm shift is more uneven and gradual than the literature traditionally suggests. Furthermore, the adoption of strict new monetary and fiscal policies took place in the early 1980s, before the intellectual tools of the new paradigm were dominant and developed. This suggests that it was not the intellectual dominance of liberal ideas that caused the initial adoption of neoliberal policies. It is argued instead that the central role of economic theory is rather in legitimating and justifying policy, and that the stability of economic strategy, despite changes in government, point towards a situation where neoclassical liberalism has taken the form of common sense in the policy elite. This may in turn restrain the scope of legitimate public debate and policy action.

1. INTRODUCTION

One of the most salient debates in the discussion around the dominance of neoliberal policies in recent decades is on the role of economic ideas and theories (Blyth , 2001; Cahill , 2013; Fourcade & Babb, 2002; Mirowski , 2013; Peck , 2010; Pedersen & Campbell , 2001). The exact influence of economic ideas is hard to measure and often the exact character of the influence of ideas is hard to trace, and inherently intertwined with institutions, material forces and power. This paper will offer an empirical take on the question through a historical case study of how and in what form neoliberal ideas have come to dominate in a concrete historical setting: Denmark from the 1970s to the 2000s.

Ever since the work of Katzenstein in small states (Katzenstein, 1985), there has been an interest in the forms of tight-knit, corporatist institutions and concurrent flexibility – when it comes to policy reforms and economic competition – that have characterised the small open economies of Scandinavia and the low countries. In the Danish case, there has been a large body of literature on the specific flexibility of the Danish hybrid-economy, especially determined by the notion of flexicurity (Andersen & Svarer, 2007; Campbell & Pedersen, 2007). The specific puzzle here is a bit different, though. It is rather: how did neoliberal ideology come to dominate in a traditionally socially democratic country like Denmark?

In addressing this, the paper traces the historical spread of neoliberal ideas³² in the Danish macroeconomic establishment, and the specific forms of economic analysis and argumentation that underlie this development. The long-term development of the macroeconomic discussion in the Danish policy arena is documented through an analysis of the theories, models and methods applied by the Ministry of Finance and the Academic Advisory Committee of the Danish Economic Council in the period 1970-2015. The aim is to describe the transformation as well as the continuities in the

³² Neoliberalism, as understood in this article, is not seen as a unitary policy platform where all countries converge towards the same model. Rather it should be seen as a varied and inherently unfinished project of “neoliberalisation”, where different hybrid models are developed and imported to different settings, and adapted to the local context (Peck, 2010). The ambition remains the same, however; the spread of market regulation over larger parts of societal life, and the reshaping of state and government to further this aim.

general outlook of the economy, and the shift in the role of the economic theory, methods and models that underlie macroeconomic policies and economic reforms. The idea is not to understand the implementation of individual reforms or policy models, but rather to describe the more fundamental shifts in economic common sense and the paradigms that underpin the concrete proposals for reform in the period. The aim here is to understand how neoliberal ideas came to dominate in a Nordic welfare state that is often associated with social democratic hegemony.

By tracing the historical development from the crisis of Keynesianism in the 1970s to the early 2000s, the article traces the gradual hardening of the neoliberal consensus in the Danish macroeconomic establishment. While relatively linear in direction, the process is not smooth and free of contention. Instead, we see a highly uneven and contradictory introduction of different waves of liberalisation, where new policy instruments and goals are sometimes implemented before the theoretical justification has gained hegemony. This process of the formation of a new orthodoxy speaks against a simple “causal power of ideas”-approach to liberalisation in Denmark, and points towards an understanding of the ideological role of economic ideas and theory. Distinguishing between a strategic and legitimating role of ideas, the paper argues that market liberal ideas play a role in sustaining and justifying the liberal turn in Danish economic thinking, rather than a strategic role in initiating the process of change. In this legitimating role, neoclassical economic theory plays a central role as the justification and legitimation of the main lines of policy. It furthermore supports the formation of a sort of a common sense, within elite circles, that constrains the scope of legitimate policy debate.

The paper goes through several steps. First, the overall theoretical approach of the analysis is presented in section 2. This is followed by a methodology section that lays out the sources and mode of analysis. In the analysis, section 4 deals with the main contours of the paradigmatic shifts that take place in the period – the shift from the full employment Keynesian paradigm to that of neoclassical liberalism. Secondly, in section 5, the analysis goes into the particular chronological and institutional character of

this development through the decades. The paper concludes with a more general theoretical discussion of the overall role of ideas in the historical trajectory of Danish economic liberalisation, in section 6.

2. ANALYSING ECONOMIC IDEAS

As I will argue below, the historical development of economic ideas in Denmark hardly conforms to a process of simple scientific progress or social learning, where one theory or paradigm is disqualified in favour of a better suited replacement. At the same time, the historical trajectory, where changes in policy precede changes in intellectual justification by a number of years, does not point towards any kind of primary role of economic ideology in the original turn towards neoliberal policies. Instead, a set of more nuanced instruments are necessary when looking at the confluence of economic theory and policy.

2.1 Macroeconomics and ideology

Any coherent political-economic regime needs a grounding in a set of causal claims, perceived to be true³³. In macroeconomic policy, these ideas are naturally drawn from the dominant economic theory at the time. Economic science has played a central role in the policy realm in the period since the post-war era because it provides a credible and authoritative description of economic problems and instruments for solutions that draw both legitimacy and perceived neutrality from their origin in academia.

Indeed, there has always been something inherently ideological about the field of macroeconomics. Gramsci's notion of hegemony is that the particular interest of a group is successfully presented as the general interest (Gramsci , 2003, 145). In this context, macroeconomics proper has been quintessentially ideological since its inception in the post-war years. Both in its Keynesian and neoclassical variants, the very field of macroeconomics promises the possibility that the state, through the correct set of growth-inducing policies, can create a positive-sum game that transcends political

³³ Marcussen defines this as “prevalent and relatively uncontested knowledge structures about cause-effects relationships within the macroeconomic organisational field” (Marcussen , 2000,11).

divisions in the nation. In the presentation of a national economy, with the growth of GDP as the central goal of economics, there is a tacit assumption that there is a *one* national interest. By measuring economic wellbeing as a simple means of GDP, furthermore, the idea is entrenched that citizens on a fundamental level share in the overall wealth, with divisions based on class, race and gender added on as political factors that can be discussed after growth is secured. In that way a focus on GDP, by design, obscures the always already distributional effects of any economic system.

2.2 Strategic and legitimating functions of ideas

In looking at the uses of economic ideas, I will argue that it is important to differentiate between the two rather different roles economic theory can play in the process of the formation of policy: the *strategic* and the *legitimizing*.

In the *strategic* functions, theories are used as plans or blueprints that deliver solutions or lay out new institutional orders. This is often connected to moments of crisis, where old institutions are seen as non-functioning, and new institutional orders have to be built, while coalitions of parties, class factions and social groups are being redefined. The other function is *legitimizing*, justifying the policy of the state and presenting it as rational and legitimate to the population as well as the international world system, comprising private market actors as well as states and international organisations. Theories in this way function as ways of structuring the justification of the given social order; an essentially ideological function of presenting the institutional order as functional and delivering equitable and just results.

In operating with the strategic-legitimizing distinction, it is important not to take this as a distinction between true motivations and external propaganda. Instead, legitimization, that is, formulating the policies of the government in such a way that they appear acceptable to the surrounding world, is one of the most central outcomes of macroeconomic policy.

This does not only include legitimization to the wider public, but also to the business sector, and the owners and managers of capital. It is a crucial function for any government to be able to present

policies that are considered to be coherent, effective and legitimate. This is important not only in electoral terms, to survive politically, but in a capitalist economy, it also matters that the owners of capital are on board with the policies, so as to ensure a sufficient level of investment and avoid capital flight. Indeed, in *Buying Time* (Streeck 2014, 21), stressing the importance for governments to legitimate themselves to the owners of capital, Wolfgang Streeck points to legitimisation as one of the most central features of economic governance in the age of global financialisation.

2.3 Depoliticisation

A central part of the political power of economic ideas lies in their ability for *depoliticisation*; that is, the process by which concepts and elements are taken from the sphere of political contestation to a realm of technical deliberation (Burnham , 1999)³⁴.

By framing economic questions in a mathematised and formalised form, modern macroeconomics has an inherent tendency to depoliticise debates around central economic issues. By assuming that there are scientifically sure answers to questions of macroeconomic policy, issues that are from the sphere of negotiation between interest and political deliberation can be moved to a realm of technical efficiency.

This process was furthermore radicalised with the rise of neoclassical liberalism, where every economic issue is seen as a problem with the optimisation of the allocation of resources. Duncan Foley explains the transition from Keynesian to rational actor models as a response from policy pressure to find a neutral language to describe the new policies of monetarism. Foley describes how the “sudden triumph of rational expectations theories rested in an important way on their presentation of macroeconomic policy, particularly monetary policy as ‘neutral’, that is, by implication, without impact on distribution” (Foley , 2010a, 12).

³⁴ Peter Burnham (Burnham 1999) describes the process of transitions, from the politicised management of the post-war period – where the weight was on discretion-based management and the direct steering of the economy – to the depoliticised management of the 1990s, where the emphasis was on rule-based management, and "rule through market mechanism".

2.4 Construction of common sense

If such a program can be formulated and supported by sufficiently powerful social forces in a society, it can take the form of an “elite common sense”. Elite common sense is a set of assumptions that does not cover the entire spectrum of debate but sets the limits of what are considered to be valid arguments in the given settings, thereby shaping the scope of political action³⁵. Kees van der Pijl describes how this happened to the Keynesian theory in the post-war period, where the writings of Keynes and other academics were merged into “an integrated concept that not only satisfied the preferences of politicians, economic statesmen, and academics, but also could provide capitalist rule with a transcendent formula (...) the intellectual legacies of Keynes, Streit, and many others finally merged into a self-evident ‘realism’ and lost their academic particularity” (van der Pijl , 1989, 9).

Later, after the crisis of the 1970s, a new set of common sense was gradually instated with a merger of liberal policies and neoclassical economics. Huw Macartney defines this new form as “*neoliberal common sense*”, predicated in the first instance on (positing) a causal link between pro-competitive reform and economic growth” (Macartney , 2011, 109). An approach based on the legitimating effect of economic ideas and the formation of common sense allows a way of understanding the development and significance of economic ideology in societal processes without assuming an idealist approach to the causal primacy of ideational development over economic or geopolitical factors (Cahill , 2014). The establishment of a paradigm or ideology as common sense (in either the elite or popular form) can be seen as the conclusion of a successful process of depoliticisation.

³⁵ Watkins describes this situation in the following way: “Common sense also becomes a material force insofar it imposes parameters of constraint on what is possible politically in any given moment” (Watkins, 2011, 105). This was the case in the post-war period with the merger of social democratic policies and Keynesian macroeconomics.

3. CASE AND METHODOLOGY

The article represents a single case study on the formation of neoliberal hegemony in a national context (George & Bennett, 2005). To a certain extent, the Danish case could be seen as a 'least likely' case of a neoliberal consensus emerging, with the country's strong trade unions and social democratic tradition. However, it is not the main ambition of the paper to make causal claims about the root causes of the emergence of neoliberal hegemony. Rather, it aims to provide a historically grounded study of how neoliberalism 'goes local' (see Ban, 2016) in the Scandinavian context, and to use this historical case as the basis for a discussion of some of the more general questions when it comes to the political influence of economic ideas.

The timeframe from the 1970s is determined by the subject matter, in the sense that there exists a relatively broad consensus that the global emergence of neoliberal ideas had their roots in the crisis of the 1970s (Blyth, 2003; Harvey, 2007; Hay, 2004b; Palley, 2004; Ove K Pedersen & Campbell, 2001). Whether neoliberalism has been resilient or in terminal crisis after the 2008 financial crisis lies beyond the ambitions of the paper to discuss (Crouch, 2011; Dumenil & Levy, 2011; Helleiner, 2010; Schmidt & Thatcher, 2013), and the analysis therefore stops before the emergence of the crisis. The specific year, 2004, is chosen because it was the last year that the finance ministry published the 'finansredegørelse', before the publication was discontinued.

3.1 The Danish macroeconomic establishment

In order to get a comprehensive understanding of the ideational development in the period of neoliberalism, it is necessary to look at the specific set of institutions making up the macroeconomic establishment in Denmark. Historically, this has mainly been composed of the government, primarily the Ministry of Finance, and the research divisions of the employer- and business organisations, mainly the Danish Federation of Industry (DI) and the trade unions, primarily through the economic research

council of the TUC (AE-rådet) (Asmussen, 2007; Due & Madsen, 2012; Jensen , 2008). Another central player is the Danish Economic Council, comprised of the country's most prominent macroeconomists. The council is a formal state institution, and its advice is featured prominently in the public debate as well as in the central administration. At the same time, the council has a large degree of autonomy. The Ministry of Economy is the formal head but since 1969, the board has been de-facto self-perpetuating in its appointments (Kærgård, 1996).

There are some characteristics of the Danish macroeconomic establishment that are of particular relevance to this paper. Firstly, independent think tanks have a very limited role, except for the research centres directly connected to the interest group organisations mentioned above. Until the formation of the liberal free-market think tank CEPOS in 2005, there was no effective presence in terms of think tanks. This sets Denmark apart, not only from countries such as the UK, where think tanks have played a major role in the formation of macroeconomic opinion (Desai , 1994; Hay , 2001), but also from neighbouring Sweden (Blyth, 2001; Ryner, 2003).

The second important characteristic is the very high level of consensus among the main economic actors. Through the corporative and negotiated system, a general system of consensus building has been created in Denmark, where we often see general agreement over the general lines of economic strategy and macroeconomic policy, even across business and labour unions. Campbell and Pedersen describe this consensus as “the Brotherhood of Economists” (Pedersen & Campbell, 2014, 197). As a consequence, there is a very high degree of homogeneity at the top of the economics profession in Denmark across universities, the government, and the business sector. Furthermore, there is a large degree of connection and integration between the different sectors (Stahl & Henriksen, 2014).

3.2 Document analysis

The analysis concerns the development of macroeconomic analysis and the following policies in Denmark. In order to track the development, the analysis focuses on regularly published reports, forecasts and outlooks through the period.

The documents surveyed come from two different sources: the Ministry of Finance, the central economic coordinating ministry in the government, publishes an annual statement of the economic situation of the country, and the proposed policies and reforms of the government in the period from the 1970s to 2004³⁶. The Economic Council, an independent advisory body headed by leading academics and consulting various social partners, also publishes biannual reports that survey the economic situation of the country and make policy recommendations based on this analysis.³⁷

These reports serve various purposes. The Ministry of Finance tries to justify the policies of the government through references to economic science, international authorities and common sense. Recent economic history is presented in a way that supports the government's position. The Economic Council tries to influence government policy by applying the tools and models of economic science to the available data on the national economy. At the same time as serving these direct purposes, the reports also reveal a more general economic worldview and a set of assumptions and ideas about the nature and efficacy of various policies on certain economic variables. Questions such as the following are addressed: how is the economy structured, what are the main concerns of economic governance, and what tools can and should be applied to tackle these concerns. Because the documents surveyed

³⁶ This function shifted between different publications throughout the period, however. In the period of 1970-80, part of this content was found in the Economic Outlook (*Økonomisk oversigt*) published by the Ministry of Economy, in consultation with the Ministry of Finance. From 1980-2004, the yearly budget report published by the Ministry of Finance was expanded to include this analysis, and renamed Finance (Jensen, 2008). From 2004 to 2014, the publication of substantial reports was suspended, which is why 2004 was taken as the end point of the analysis.

³⁷ The Economic Council is generally perceived as representing the economic mainstream of the profession – as all decisions in the four-man presidency are taken unanimously, there is a self-conscious attempt to keep appointments within the mainstream. While the analysis of the council is taken seriously in the administration and government as well as in the wider public, the council does not form a part of the administrative hierarchy (Marcussen, 2002).

are not constructed to convey an economic worldview, or theories of causal connection between economic phenomena, this information is available indirectly and piecemeal. The focus in the analysis is on how economic theory is used as a tool that allows for new forms of regulation and as a justification for policies, portraying the policies as beneficial to the general public.

3.3 Analytical framework

The main goal of the analysis is not to trace exact changes in rhetoric and wording, but rather to look at the underlying conceptual mechanics and theoretical assumptions that are employed in the concrete analysis. These theoretical assumptions can be described with the concept of paradigm originating from the works of Kuhn (Kuhn, 1996 [1962]). Kuhn's concept was later imported into the world of political economy by Peter Hall's 1993 seminal paper, where he describes how policy paradigms function as overarching "interpretive frameworks" wherein different goals, policies and instruments are understood and evaluated by actors (Hall, 1993, 278). Drawing on the twin uses of the concept of paradigm – scientific and policy paradigm – this study will show how the interaction between these two worlds – the scientific, represented by The Danish Economic Council, and the political, represented by the Danish Ministry of Finance – plays out over time, and how new ideas are introduced and translated between the two different worlds.

Traditionally, the concept of paradigm has resulted in a focus on breaking points, or disjunctures, where heated debates lead to a sharp shift in theory or policy. However, a focus on such clear breaking points runs the risk of overlooking subtler and more gradual forms of change, which can sometimes happen without major debate, although the effects might be just as radical and transformative over time. To trace changes in paradigms and the understanding of the economy on a general level, without a priori privileging contentious break over other processes, it is necessary to look in the very long-term. This is possible in a Danish context because relatively similar documents dealing with some of the same economic issues are published every year. As such, it is possible to look behind the concrete policies

under scrutiny and into the hidden elements of the theories and models shaping the analysis and interventions.

The documents are analysed to survey the broad changes in the economic worldview from decade to decade. For a systematic survey of these developments, the documents have been sampled at 5-year intervals for thorough analysis of the first general report published that year. The regular sampling allows for a consistent tracing of the long-term development of economic ideas. These samples have been used for the construction of the overall chronological development seen in Table 2, and for the construction of the ideal-type paradigms seen in Table 1.

Within this framework, a set of categories are analysed for each of the reports:

- Main perceived economic problems and challenges
- Primary policy goals
- Policy instruments advised – short and long term
- View on certain key economic variables
- Role of government in economy
- Employment and inflation
- Labour market regulation

Beside the systematically sampled reports, the analysis is also based on a number of additional materials and reports that casts light on specific theoretical or methodological innovations and debates. These have been identified through citations in the sampled reports or in the secondary literature.

4. SHIFTING PARADIGMS

Based on the sampled material, it is possible to distil a shift between two distinct paradigms: ‘full employment Keynesianism’ (FEK), which is dominant in the 1970s, and ‘neoclassical liberalism’ (NL),

which emerges in the 1980s and finds its form throughout the 1990s. The concept of paradigm here should not be understood in the strict Kuhnian sense of a scientific paradigm, or as Hall's notion of policy paradigms. It is used instead as meaning the governing logic that is used to describe the structure of the economy and the cause-effect relations between the main variables of macroeconomic policy. With this slim definition, it is possible to identify the two main paradigms described below.

Any construction of a pure paradigm will often take the form of an ideal-type, which is abstracted from observations rather than found directly in the real world. Such ideal-typical constructs allow us see the underlying logics that are invoked in any given context and the modes of reasoning that are employed, and gives structure to a more detailed chronological account. The reason for the use of the concepts of 'full employment Keynesianism' vs. 'neoclassical liberalism' is to point to the fact that the concrete paradigms are not mere reflections of abstract high theory, but concrete historical formations.

The centrality of Keynesianism in the actual macroeconomic policies of the post-war period need not be overstated. It was just as much the compromise between capital and labour, and the active role of the state in brokering consensus, as the instruments of Keynesian demand management as such that defined the political economy of post-war Europe³⁸ (Eichengreen , 1996). But Keynesianism nevertheless provided a language and a set of policies that promised to ensure the smooth operation of the economy as a whole without asking either capital or labour to suffer to an unacceptable extent (Glyn , 1995).

At the same time, neoclassical liberalism does point to the specific form of moderate neoliberalism that emerges in the Danish context based on formal mathematics and neoclassical reasoning. In contrast to Britain or Germany, non-neoclassical forms of neoliberal reasoning, such as Hayekian liberalism³⁹ or

³⁸ Denmark actually ran with a consistent budget surplus in the period of realised full employment in the 1960s and early 1970s (Danmarks Statistik , 2008).

³⁹ As seen in the case of IEA or CPS in Britain (Cockett , 1995).

German ordoliberalism, are very marginal in Denmark⁴⁰. Again, while logical neoclassical economics allows for a presentation of market-oriented policy reforms, this does not necessarily mean that economic liberalism is the only possible interpretation of neoclassical economics.

Table 1: Ideal type paradigms: full employment Keynesianism (FEK) and neoclassical liberalism (NL)

	FEK	NL
Role of government	Active coordinator	Framework for markets
Employment	Full employment	Natural unemployment
Public sector	Stabiliser	Expense to economy
Short-term instrument	Demand management, income policy	Fiscal stabilisation
Long-term instruments	-	Structural supply side reforms
Dominant policy horizon	Short: 1-2 years	Long: 10 years
Sources: (Danish Government, 1970,1975, 1985, 1990, 1995, 2000, 2004) (Danish Economic Council, 1970, 1975, 1985, 1990, 1995, 2000, 2004)		

4.1 Full Employment Keynesianism (FEK)

Short definition: *A dominant policy goal of full employment reached through Keynesian demand management.*

Secondary objectives of inflation reduction and wage competitiveness reached through income policy.

The primary policy goal is the securement of full employment and high levels of growth, while at the same time avoiding increasing the trade balance deficit and price and wage inflation to levels where they are able to disturb economic balance. In order to accomplish this, there is a constant need for government intervention and the regulation of the economy, and adaption of the economic strength of economic macro-actors.

In the 1975 report, the Economic Council defined how “the dominant question is naturally the possibilities of reducing the high unemployment” (Danish Economic Council, 1975, 55). At the same

⁴⁰ The only exception is the introduction of Schumpeterian innovation-theory in the period after 2000, especially through the works of Bent-Aake Lundvall (Danish Government, 2000, 119).

time, the government stated that the overriding priority was reducing unemployment to “acceptable levels” – at the time defined as 4% (Danish Government, 1975, 5).

In general, the tools used to secure full employment were Keynesian demand management. Until the 1973 crisis, this was primarily in the form of anti-cyclical monetary policy, but after the advent of the 1970 crisis, this also took the form of fiscal stimulus (Mikkelsen, 1987, 61). The key problem discussed was the international trade and current account balance. The long-term instruments could in some cases include active industrial policy. This was very scarcely discussed, however, and discussion of economic policy rarely exceeds the span of one-two years that was thought to be needed for any economic policy to take effect (Danish Economic Council, 1976, 21).

The primary fear expressed during this time was that a situation of prolonged full employment strengthened labour to a point where wage demands would push up the cost of production and damage international competitiveness. Anxiety over inflation was also present, but it appears to be secondary to the issue of international competitiveness. Inflation is far more often invoked with regards to its impact on international competitiveness rather than as a problem in itself to the domestic economy.

The main policy instrument to secure international competitiveness and domestic price stability was state-coordinated *income policy*. By a direct regulation of wage increases, this policy was supposed to make possible the continued existence of full employment, without wage-driven inflationary pressure. The central role of active income policy in this setup is described in the 1976 report of the Economic Council: “If a reticent income policy cannot be established, it is hard to avoid the fact that unemployment has a function in a system based on market economy – that is restraining inflation. If a full employment policy is undertaken without income policy, the result is inflation, maybe even accelerating inflation” (Danish Economic Council, 1976, 22).

4.2: Neoclassical liberalism (NL)

Short definition: Liberal, market-based policies, based on (and legitimised by) neoclassical reasoning. Dominant policy goals are the creation of structural conditions for market-based growth, by supply side reforms.

There are two elements in the policies prescribed under this paradigm: short-term stabilisation policy, aimed at stabilising inflation and economic balances, and long-term structural reforms, aimed at changing the long-term supply side of the economy, especially the labour market.

This perspective is formulated by the Economic Council in their 1990 report, as “an important explanation of the negative experiences from the 1970s is that supply shocks should be countered with instruments that target the supply side, not the demand side. Some have even made the conclusion that is best to lead the adaption to the market forces, perhaps aided by structural adjustments” (Danish Economic Council, 1990, 87). Here, the goal of securing full employment is abandoned in favour of a focus on inflation reduction and trade balance problems. The goal of lowering employment is thought to be primarily achieved through downward pressure on wages through labour market flexibilisation: “A lower increase in wage rate will lead to a higher rate in employment. If the wage formation is made more flexible (...) it means higher employment and lower structural unemployment” (Danish Economic Council, 1995, 67). This shift to structural policies represented at the same time a withdrawal of the state from a role as active coordinator and guarantor to one of frame setter. At the same time however, it represents a more ambitious state policy than in the FEK paradigm, where the role is to not only reduce the impact of market fluctuations and increase output, but also to formulate policies that aim to transform the structural conditions of the economy.

In contrast to FEK, the focus of NL is on long-term structural policies aimed at changing the underlying supply side features of the economy. Here, the expected role of the government is not framed as direct interference to ensure stability, but instead as the indirect role of removing obstacles, rigidities and distortions that allows market actors to create economic growth. This can be considered

as a form of liberal governance, where indirect control takes precedence over the direct micromanagement associated with the Keynesian period. The primary goals here are labour market inflexibilities and the size of the public sector.⁴¹

5. HISTORICAL DEVELOPMENT

The notions of paradigm and paradigm shifts are most often associated with ruptures and sudden shifts. This is not so evident in the Danish case, however, where the transition happens more smoothly and in a disparate fashion.

The main development in the sampled material is a continued drift towards more market-based and liberal policies throughout the period of 1970 to 2000. This ideational development does not necessarily mean that all of this was translated into policy directly. The introduction of monetarist ideas and supply side economics into the economic thinking in Denmark did not lead to the radical reforms or redistribution of wealth and income that were seen in the Anglophone world in the 1980s. For instance, the main thrust of privatisation only came later in Denmark, in the 1990s (Lundkvist, 2009). Nevertheless, the ideational development is substantial.

In the following, I will go through the development from decade to decade, to show how new notions were imported gradually and in contradictory ways. It is noteworthy that even if shifts in the political orientation of the government have a small effect on the rhetoric, the main lines of development towards neoliberal common sense are unilinear over time, irrespective of the political orientation of the government.

⁴¹ This view is put by the Ministry of Finance in its 1990 outlook as follows: “the largest (economic) problems are related to the size of the public sector, the tax structure and the labour market. (...) It must be judged that it is distortion through tax and tariffs, that have created a large part of the current account imbalance, and that it is structural problems in the labour market that make it hard to realise sustained reductions of unemployment” (Danish Government, 1990, 17).

The early to mid-1970s were characterised by the continued dominance of full employment Keynesianism. This is evident in the analysis and the economic reasoning of both the Ministry of Finance and the Economic Council. At the same time, the period is marked by the advent of the economic crisis and the inability of the classical Keynesian policy tools to re-establish full employment and reduce the deficit on the current account balance. The early 1970s witnessed a situation of consensus between the Economic Council and the Ministry of Finance around the perspective that the classical arsenal of countercyclical instruments must be used in order to return unemployment to acceptable levels⁴². The Economic Council stated here that “the dominant question is naturally the possibilities of reducing the high unemployment” (Danish Economic Council, 1975, 55), whereas the Ministry of Finance advised the use of “fiscal stimulus to reduce unemployment to ‘acceptable levels’” (Danish Government, 1975, 5). Income policy is here seen as key to maintain the primary policy goals of full employment, trade balance surplus and moderate inflation.

Table 2: Historical Developments

	1970s	1980s	1990s	2000s
State of paradigm	One paradigm-crisis	Competing paradigms	One paradigm - consensus	One paradigm – common sense
Dominant Paradigm	FEK	FEK vs NL	NL	NL
Main perceived problems	Trade balance Unemployment	Trade balance Inflation	Structural unemployment, Inflation Deficits	Demography Deficits Globalization
Dominant time frame	Short 1-2 years	Short/medium 5 years	Long 5-10 years	Long 10 years
Dominant instruments	Fiscal and monetary policy, income policy	Fiscal austerity, Structural reform	Structural reforms	Structural reforms
Government orientation	Shifting	Centre-right	Centre-left	Right

⁴² In the 1975 document, this is defined as 4% (Danish Government, 1975, 5).

5.1 1980s: ADAPTION AND RESISTANCE

The 1980s stands out as a somewhat schizophrenic period, where both the government and the Economic Council were trying to grapple with a shifting economic landscape with a set of analytical tools still drawn from the toolkit of Full employment Keynesianism. Both institutions tried to adapt the old understanding of the economy to the new set of constraints on policy caused by the international wave of neoliberal ideology that affected both international organisations and global scholarship (Harvey , 2007; Palley , 2004).

This led to divergent intellectual strategies:

The Ministry of Finance chose to follow the conclusions dictated by the changing pressures from international development, especially the rate hikes by the US Fed under Volker from 1979, (Eichengreen , 2008, 144), but also more direct political pressure from international organisations. As an example of the latter, pressure from the OECD played a central role (Marcussen , 2000). This started with a policy of pushing down wages through a combination of income policies and a turn towards fiscal austerity and strict monetary policy by the social democratic government in 1980 (Danish Government, 1980, 42). This turn away from expansive monetary and fiscal policy is further strengthened by the arrival of a new right wing coalition in 1982 that pegs the currency to the D-mark, thereby removing the possibility of independent monetary expansion and devaluation (Asmussen, 2007). What is noteworthy at this point is that the argumentation of neoclassical macroeconomics was not being employed at this point, and unemployment is described as a classical trade-off cost as a part of the Phillips curve relationship. It is a practical and political, rather than a theoretical divergence from Keynesian ideas (Government, 1985).

On the other hand, the independent economist in the Economic Council chose to stick with the old orthodoxy. During this period, the council launched critiques and alternative strategies based on Keynesian macroeconomic analyses and the goal of realising full employment policies, despite the changes in global economic conjunctures. In 1980, the council opposed the focus of the social democratic government on prioritising inflation over employment, and stated that it was possible to return to full employment within a few years (Danish Economic Council, 1980, 16). To reach this they advocated for an “investment and productivity led path, and thereby a path with expanding employment” as an alternative to the government’s attempt to “cut and tighten our way to an equilibrium on the current account balance, and thereby risk to be caught in long stagnation crisis” (Ibid 44). Traditional income policy with price and wage control continued to play a central role well into the 1980s as an alternative option to both monetarist policies and fiscal austerity (Danish Economic Council, 1985, 6).

In the wider Danish economics profession, discussions on the effectiveness of the Keynesian framework began in force in the early 1980s. In the main journal, *Nationaløkonomisk Tidsskrift*, there was a growing number of voices critiquing the efficacy of classical demand management and calling for a turn to stricter monetary policy (Sørensen , 1983; Thygesen , 1981, 1983). This new critique primarily cited the monetarist theories of Friedman (Friedman, 1968) and the “New Classical Macroeconomics” of Lucas and Barro (Barro , 1976; Lucas , 1976; 1980). The debate was by no means conclusive, and the defence of the Keynesian methodology remained strong (Andersen , 1983b; Sørensen , 1983). The Economic Council remained committed to a broadly Keynesian approach and a strategy of full employment into the 1980s. This is the case despite the brief membership of monetarist Niels Thygesen in 1984-85.

From the middle of the 1980s onwards, we see the emergence of the call for “structural reforms” in the Ministry of Finance. This aimed to change the underlying structure of the economy through long-term

market-based reforms that were designed to strengthen domestic competition through deregulation and reducing the size of the public sector (Danish Government, 1985, 23-24).

Here we see for the first time that the government no longer employed a reasoning based on the demand-focused FEK, and relied instead on supply side argumentation and neoclassical reasoning, based on the perceived effects on microeconomic actors. Neoclassical microeconomics had been present in Denmark since the formation of the establishment of economic departments in the interwar years (Jespersen, 2008). But the methods and consideration played virtually no role in the macroeconomic discussion, and even less in the official debates about economic policy until the mid-1980s. At first, these new neoclassical elements played only a minor role, and the early adoption of monetarism was largely interpreted within a Keynesian framework as a trade-off. Later, especially with the introduction of long-term analysis, this reasoning takes precedence over the previous Keynesianism.

The continued rightward shift of government policies put heavier pressure on the Economic Council. Already, with the publication of the 1982 report, the body's call for devaluation came under heavy fire from the entire spectrum of partners represented in the council: the economic ministries, the employer organisations and trade unions all criticised this break with the trend towards hard money policy and monetarism (Mikkelsen, 1987). The critique was supported by analysis and direct written interventions from the OECD (Marcussen, 2000). The presidency took note of this and in the period of 1983-87, we see a clear adaption to this new monetary orthodoxy. The 1987 special report on the history of the council describes this as a conscious decision – the presidency sensed the changing winds, and adapted accordingly. It was clear that the alternative would be political irrelevancy (Mikkelsen, 1987). From 1988, the call for income policy was abandoned, as the last vestiges of the FEK paradigm slipped away in favour of a move towards a “higher degree of market based wage structure through economic reforms” (Danish Economic Council, 1988, 49).

5.2: 1990S, THE FORMATION OF A NEW CONSENSUS

While the 1980s were characterised by a large degree of divergence and debate over differences in instruments and the priorities of policy goals, the 1990s witnessed a re-emergence of a consensus along the broad lines of macroeconomic policy. From the early 1990s, a new, coherent paradigm of neoclassical liberalism can be discerned. This paradigm matched the new policy goals and instruments that the government has been pursuing for the last decade.

This also gave a new and less ambiguous role for the newly reconstituted Economic Council. The tenets of neoclassical economics were used as the basis for a number of calls for deregulation, privatisation, and public sector reform. This development was summed up by former Economic Council chair Peter Birch Sørensen as follows: “over time, the weight of the reports have gradually shifted towards more emphasis on long-term structural policy issues at the expense of consideration of short-term cyclical policy”. Members of the Economic Council in 2009 retrospectively described how “from the late 1980s onwards the reports began largely focusing on structural problems” (Sørensen & Rosholm, 2009, 10).

This development was to a certain extent driven by the arrival of a new generation of macroeconomists. They directly refuted the post-war Keynesian methodology in favour of Friedman’s monetarism or neoclassical macroeconomics and rational actor models, based on the works of Lucas and Sargent from the early 1980s. Economists such as Torben M. Andersen (Andersen, 1988), who became a member of the chairmanship of the Economic Council in 1993 and later its chairman in 2001-3, or Peter Birch Sørensen (Sørensen, 1983), who was chairman from 2004-9, played a central role in this development. They are still centrally placed actors in the Danish macroeconomic establishment today (Stahl & Henriksen, 2014).

However, this paradigm shift around the early 1990s can hardly be explained by the replacement of people alone. On the contrary, the transition was characterised by a large degree of continuity. This seems to be the case because the shift in paradigms did not take the form of replacement of one theory with the other, but rather with a more subtle displacement of the objects, goals and timeframes of macroeconomic policy.

5.2.1 Shifts in time horizon

In this process of subtle displacement, particularly the shift from short to long term is crucial. The 1990s witnessed a continuous shift in the focus of policy analysis from a shorter time horizon to a longer one. The time frame for policies gradually changed from a two-five year perspective to 10-20 years. This shift in time horizons is significant. It might not be a great difference in the actual number of years considered, but the theoretical difference is important, because the new long-term focus implies a shift towards neoclassical theory. In the neoclassical synthesis that dominated the economic profession in the post-war era, the short-term was dominated by Keynesian ideas of market failures where government intervention and planning could help steer the economy through the instability and cyclical fluctuations of the market. In the long-term, however, demand and supply were thought to be in equilibrium, and market forces were thus able to create pareto-efficient outcomes if left to themselves (Fine , 1998; Foley , 2010a). In this way, the tension between micro and macro within the economic theory of the post-war economics profession allowed for a radical shift in policy outcomes, simply by allowing the assumptions of neoclassical microeconomics to enter the debates on macroeconomics, hitherto dominated by Keynesianism.

Because this development took the form of a shift in time-horizon, and not in direct polemics, it allowed for a relatively radical shift in outlook over the decades, without jettisoning the theoretical consensus that is a hallmark of the Economic Council and of the wider Danish macroeconomic establishment.

It is necessary here to recognise that some form of moderate Keynesianism never really disappeared from the macroeconomic debate in Denmark in this period. The models of the Economic Council, as well as the Ministry of Finance, retained some Keynesian elements throughout the period (Danmarks Statistik, 2012). As an example of this, the presidency continued to describe itself as a mix between Keynesian and neo-classical theories (Andersen , 2002; Kærgård , 1996, 2008). From the mid-1980s onwards, it was nevertheless the long-term analysis that was allowed to do the heavy analytical lifting. The brief deployment of Keynesian stimulus by the recently elected social democratic government in 1993-94 (Asmussen 2007) does not change the clear tendency in the 1990s, in the main part of the analysis, to focus on the long-term horizon, where the assumptions of neoclassical economics are thought to hold. This entails a shared understanding of the ubiquitous requirement for economic reforms. The language of “reforms” is the consistently-used shorthand for the flexibilisation of labour market regulation, the reduction of benefits and a reduction of public sector spending (Danish Government, 1995, 23; 1990, 17; Danish Economic Council, 1990, 78; 1995, 67-68). This new consensus was eased with the arrival of the New Keynesian, promoted by economists like Krugman and Roemer from the 1990s onwards. Through concepts such as sticky wages and market failures, the New Keynesians adapted the new dominant neoclassical framework, but allowed for a limited use of the traditional instruments of Keynesian demand management (Eatwell & Milgate, 2011, 59).

5.2.2 Abandonment of full employment

In FEK, the aim was to secure full employment through the continuous adjustment of economic instruments and negotiation with economic actors – a job that almost solely takes place in the short term of one-two years. In NL, the goal of full employment is given up and the role of short-term policy is mainly to stabilise the economy, avoiding large fluctuations from a natural level of unemployment, set by structural long-term factors. A large part of the paradigm shift therefore took the form of a gradual replacement of the short by the long term, as described above. At the same time, the prospect of full employment disappeared entirely from the discussion and the attempt from the 1970s to reach

this was used as negative example. Instead, the terms “structural” or “natural” unemployment were introduced as a necessity in ensuring economic stability ⁴³(Skott , 1996). In the 1990 report, the Economic Council refutes any prospect of implementing ambitious policies against the prevalent mass unemployment on the grounds that “it is possible to lead a more ambitious employment policy than abroad, without hurting the wage competitiveness and the current account balance”. The report continues that this will lead to “insufficient incentives to wage restraint from labour market actors” (Danish Economic Council, 1990, 68).

The constant call for these reforms points to a redefinition of the role of the state in the economy. The main difference in the policy attitudes between the two periods is less the application of certain instruments of demand management, but rather the overall conception of the role of the state in the economy. The FEK paradigm allowed for an active role of the state in the manipulation of macroeconomic variables through policy or negotiation. Within a neoclassical framework, the levels of investment and employment are determined by agents on the market, and the role of the state is merely that of providing the right framework and institutions to allow the space for market actors and “real” economic activity.

The move towards the long-term in economic analysis was further strengthened by the expansion of the use of formal econometric models. Predictive economic models had been in use in Denmark since the 1970s. The first macroeconomic models of the Danish economy were developed by Ellen Andersen of Copenhagen University, and they would later develop into the ADAM-model employed by the Danish bureau of statistics and the Ministry of Finance. The Economic Council quickly followed suit with their own SMEC-model (Andersen , 1983a; Danmarks Statistik, 2012). The use of economic models did not become universal as a practice before the mid-to late 1990s, because the available

⁴³ The idea of a natural floor under which long-term unemployment cannot be reduced without detrimental inflation originates from Milton Friedman in 1968 (Friedman, 1968)

models were primarily able to model short-term fluctuation (Jespersen , 1991). In the course of the 1990s, the demand for a pure general equilibrium model for long-term structural reforms grew stronger. From 1997, the DREAM (Danish Rational Economic Actor Model)⁴⁴, was put into use. It was Denmark's first pure neoclassical general equilibrium-model with rational individuals and full neoclassical assumptions. From the early 2000s, the DREAM model was used to benchmark most policy initiatives, and its use cemented the almost exclusive focus on long-term supply side reforms.

5.3 2000S: CONSOLIDATION OF COMMON SENSE

In the late 1990s, and the early 2000s, the new paradigm hardened further. From this point onwards, the instruments and understandings of neoclassical liberalism are no longer discussed as policy preferences, but are instead seen as the necessary basis for the formulation of any policy at all.

In this way, reform ideas such as benefits retrenchment and labour market flexibilisation are moved from proposals in need of argumentative defence into the background of assumptions and common sense. In its 2000 report, the Ministry of Finance presented this common sense as: “a strong economy, international openness, structural policies and sound finances are not goals in themselves. They are *necessary instruments* to achieve higher living standard, solid employment, welfare, social cohesion etc.” (Danish Government, 2000, 9). But the instruments used to reach these goals were the same as the ones proposed to improve the macroeconomic balances in the 1980s. Whereas the early liberalisations were presented as attempts to correct macroeconomic imbalances, in the 2004 report from the Ministry of Finance, the absence of any macroeconomic problem is used as a reason “to focus on the long-term challenges” (Danish Government, 2004, 9).

⁴⁴ As a picture of the tight knit networks of the Danish economics profession, the model was created by Lars Haagen Petersen, former head of the secretariat at the Economic Council, but later employed in the model division in the ministry of finance. (Henriksen, 2013)

In this way, liberal reform proposals were no longer necessarily tied to any specific policy goals, such as combatting inflation or bettering the current account balance. Instead, they are seen as the necessary remedies to reach any political goals at all. The ideas have been fully depoliticised and turned into elite common sense.

The transition to the complete hegemony of neoclassical thinking can be seen from the early 2000s. Two developments characterise this. Firstly, the complete dominance of the long-term in economic policy planning is heralded by the so-called 2010 plan from 2001, which tied the entire economic reform programme to long-term analysis (Danish Government, 2001). Parallel to this, we see the introduction and wide application of the pure neoclassical DREAM model from 1997, with its assumption of automatic long-term equilibrium⁴⁵ that is especially salient when it comes to the field of labour supply. The assumption that market forces will automatically regulate any given market in the long-term means that any reforms aimed at expanding the labour supply, such as pension reform and the reduction of benefits, are automatically seen as being economically beneficial.

5.3.1 New areas seen as economic policy.

It was not only the timeframe of economic analysis that was transformed with the transition from FEK to the NL paradigm. It was also the space and scope of macroeconomic policy in the wider society.

On the surface, the FEK paradigm presented an extremely ambitious policy programme for the prospects of a capitalism without crisis and unemployment. But at the same time, the range of instruments such as demand management and income policy presented only short-term and shallow interventions in the economy. On the surface, NL presents a far more humble program. Torben M Andersen described in 1988 how “new economic theory leads to a more pessimistic view on stabilisation, than the one characteristic of Keynesianism” (Andersen , 1988, 33). But at the same time,

⁴⁵ “The model is a long-run model in the sense that prices and wages are assumed to create equilibrium in all markets in each period. (...) Structural unemployment is basically exogenous in DREAM.”(DREAM , 2014)

the emergence and expansion of the structural reform programme meant that macroeconomic concerns widened to cover a much larger part of society.

Here, the scope of macroeconomic policy expands. Traditional elements like monetary policy or currencies are taken out of the toolbox, or replaced with simple rules, while a new set of “structural” tools are put in place. Some of these are the traditional market-based tools of deregulation, flexibilisation and tax reduction. But there are also new areas that are included in the realms of economic consideration, such as “education” (Danish Economic Council, 1995, 91), “health policy” (Danish Economic Council, 2000, 15) or “innovation and culture of entrepreneurship”⁴⁶ (Danish Government 2000, 119). Suddenly, policy areas that were not seen as central to the economic sphere in the earlier period were included into the macroeconomic toolbox of the government. Here “human capital” is not seen as a mere unalterable factor of production, but instead as an area of investment. The underlying assumptions are that future economic conditions can be altered by altering the subjectivities and capabilities of the population.

6. DISCUSSION

This historical trajectory leaves us with several conclusions. Firstly, we clearly see distinct changes in the dominant economic ideas in the Danish macroeconomic establishment. The transition towards a liberal conception of the economy is gradual, but consistent. The development continues throughout the period, despite changes in government between left and right. In that sense, we can speak of an institutionalisation of neoliberal reason, in the form of the complete domination of the neoclassical liberalism paradigm in the main institutions of the macroeconomic establishment. Other studies have pointed towards a similar neoclassical dominance in the use of economic experts in the media (Madsen

⁴⁶ Interestingly this last case is the only place where non-neoclassical theories are employed as the basis of liberalisation and structural reforms, with the application of argumentation drawn from Schumpeterian innovation theory and especially the works of professor Bengt-Åke Lundvall and his 1999 report, *Det danske innovationssystem* (Danish Government, 2001, 206).

, 2009). This paradigm shift, however, happened gradually, and it is not characterised by a simple replacement of Keynesian ideas with neoclassical ones. What happened was a relatively brief change in accepted policy instruments from the early 1980s, with a turn towards monetarism. Subsequently, a slower transition happened at the intellectual level, largely driven by the displacement of analysis towards the long-term, and by the greater role of mathematical modelling. At the same time, the focus on long-term supply-oriented reforms meant that new areas became the target of macroeconomic policy, such as education and health. This process of displacement in time and space, rather than the direct replacement of one theory with another, means that the shift between paradigms took place in a smooth and gradual way. This process was further strengthened by the consensus-prone nature of the Danish macroeconomic establishment.

The trajectory of neoliberalism as described above does not point towards the spread of ideas as a very central mechanism in the introduction of neoliberal policies. The policies that were dominant internationally, especially the turn towards monetarism and fiscal austerity in the early 1980s, were implemented before the theoretical justification was in place as the new dominant paradigm. It is only later, and in a much more gradual manner, that the discursive hegemony of neoclassical liberalism was established. As such, the turn to the new policies pre-empted the dominance of neoliberal ideas.

This could point towards shifts in economic conditions and geopolitical developments as more important factors in spreading neoliberalism to Denmark than the direct transfer of ideas. However, the scope of the current investigation does not allow for any hard conclusion in this regard.

If neoliberal ideas did not shape the Danish turn towards neoliberalism, this does not preclude the fact that they play a central role in the continued persistence of such policies, especially with the continued strengthening of neoclassical liberalism even under social-democratic governments in the 1990s. This points to the central role of the shifts of centre-left parties, in the institutionalisation of the tenets of neoliberalism, from direct political project to elite common sense (Cahill , 2014; Mudge , 2011). I will

argue here that economic theory, both in the case of the post-war Keynesian period and in the neoclassical period seems to function in a legitimating rather than a strategic role.

Keynesian demand management was never the central feature of the social democratic order in Scandinavia. The spectacular rise in public spending and fall in inequality in the post-war period (Atkinson & Søgaaard, 2013) both seem to have very little to do with the cyclical policies in place, and the realisation of full employment in the pre-1973 years was reached while maintaining a consistent positive fiscal balance (Glyn, 1995, 10). But the language of mainstream Keynesian economics remained central in the presentation and evaluation of policy, because it proposed a way of explaining how a positive-sum solution for both labour and business was possible through government intervention. As such, it created the legitimacy of active state policies. The same can be said of the neoclassical discourse that gradually came to dominate the macroeconomic establishment in the 1980s and 1990s. At the start of the turn to monetarist policies in the 1980s, these policies were presented in terms of classical Keynesian trade-offs, where combatting inflation and bettering the current account balance were pursued with the acknowledged result of higher unemployment.

It is only from the late 1980s, and with full effect from the 1990s, that argumentation from neoclassical microeconomics presents a new framework for presenting strict monetary policies, market reforms and even fiscal austerity as the only possible way of securing sustainable growth, ruling out any possibility of a long-run conflict between differing policy goals. By reframing the role of government from an active coordinator to a neutral frame-setter, the only scope of pro-employment reform is restricted to supply-side reforms aimed at the flexibilisation of the labour market. Indeed, these policies are even presented as the foundation of social policy goals, such as employment, equality and social cohesion, that they would otherwise seem to work against. With the technological support of GE-models, this allows for technical and neutral argumentation that presented a much firmer orthodoxy than argumentation based on the discussion of policy goals and trade-offs.

The conclusion that economic ideas functioned more as legitimating than strategic in this context by no means implies that they were unimportant. It is a crucial function for any government to be able to present policies that are considered to be coherent, effective and justified – not only in electoral terms, to survive politically, but also (in a capitalist economy) to the owners of capital, so as to ensure a sufficient level of investment and avoid capital flight. Indeed, Wolfgang Streeck points out that for the government of a globalised capitalist economy with widespread capital mobility, legitimation to the owners of capital can be as important, if not more important, than to the wider population (Streeck , 2014, 21). Following Streeck, the legitimating function remains one of the central tenets of any macroeconomic policy. As such, the claim that economic ideas primarily functioned as legitimating, rather than strategic, is by no means a dismissal of the significance of ideas. Rather, it points toward the need for more empirical studies into the ways in which economic theories and ideas are translated into legitimating discourses in different historical and institutional contexts.

EMBEDDED EXPERTISE:

A SOCIAL NETWORK ANALYSIS OF THE DANISH ECONOMIC COUNCIL

Abstract:

Approaches to the connection between economic science and politics based on institutional theory or actor-network theory stress the importance of economic ideas and scientific models and instruments on the substantive content of policy processes. In contrast, this article argues for the importance of analysing the way economic scientific experts are embedded in broader social structures and institutions, through the application of network-analytical methods. The article presents an analysis of the Economic Council, where a range of quantitative tools is employed to describe the positions and divergent roles of the members of the broader economic policy networks in Denmark.

1. INTRODUCTION:

Most people will know the presidency of the Economic Council (DEC) under their colloquial name, ‘the economic wise men’. The Council have had the unofficial name for decades, without being the butt of jokes or satire, and recently they have even started using it themselves, if in quotation marks (Whitta-Jacobsen 2012). Five decades after its founding, the Economic Council stands as one of the most influential and long-lived expert institutions which enjoys broad recognition from government, business organisations, and trade unions (Børsting 2012; Christensen 2002; Kristensen 2002; Pedersen & Campbell, 2014). Furthermore, the Council have a strong presence in the media and public debate, especially through the publication of the biannual reports of the general economy (Vestergaard 2002).

In the ongoing debates about economic policy, the Council have managed to maintain a legitimacy as providers of a special kind of economic expertise, even when facing external pressure, (Marcussen 2002). The central role of the Council is not accidental. Our analysis shows that the wise men have a wide network that reaches far beyond academia. Compared with other professors in economics, they have a considerably stronger network and are centrally embedded in the broader networks of powerful political and economic actors in the Danish political economy.

It is well described in international sociological and political science research literature how the past few decades have witnessed an increasingly central role of scientific and expert knowledge and evidence in economic policy-making processes (Korpi 1996; Campbell 1998; Backhouse 2009). Most analyses have focused primarily on the *substantive outcomes* of policy debates, and there has been less attention to the *structural location* of economic scientists and experts in the broader institutional networks of political economy. This latter perspective is crucial as a central placement in the crucial networks of the powerful actors in an economy represents a central avenue for substantive impact on broader societal decision-making. To describe this aspect in systematic terms, the article will employ methods from the

field of social network analysis (SNA). The SNA approach and focus on political networks means that we do not investigate purely academic impact, such as research impact in terms of academic citations or direct influence through visibility in the media (see, for example, Madsen 2009).

Social network analysis can conceptualise the embeddedness of scientific experts in the wider decision-making network by mapping their relations to other actors and institutions. This approach transcends a dualistic understanding of the relationship between politics and science as two independent spheres with different and unconnected logics. This dualism has hampered much of the previous academic literature on the economic wise men, for example in the form of the question of whether these can be considered truly ‘independent experts’. Instead of this dualistic approach, a network analytical approach allows us to see both political and academic actors as players in a broader political-economic landscape.

From this starting point, the article will examine the personal networks of the DEC members and show that they have strong connections to decision-making institutions—not only to the academic community and the government sector but also to business, trade unions, and organisational life in general. In the political network of Denmark, the current and former DEC members are placed at a central point between the research community, the political system, and the broader organisational world. On this basis, we argue that their centrality in political decisions cannot be understood only as a result of their formal access to the political system but also in light of their informal embedding in the broader political economy decision networks. We argue by extension that, due to their centrality, the DEC members play an important role in the framing of economic policy discussions in the wider political debate. Therefore, they contribute significantly to reproduce the narrow professional consensus that characterises the economic debate in Denmark.

Through a combination of SNA, correspondence analysis, and cluster analysis of DEC personal networks, we demonstrate their centrality in decision networks as well as distinguish their divergent institutional embeddedness. This combination of methods allows us to identify variations in the

different institutional configurations in which experts are embedded without, however, giving direct insight into concrete decision-making processes, which must be studied in other ways.

The article first gives a brief outline of the Economic Council's history and an overview of the research literature on the subject. Next, we place our analysis in relation to similar work in the sociology of knowledge and institutional theory. After that, the data analysis is organised into two parts: first, a description of the network statistics for the DEC and second, an analysis of the various DEC members' differing roles in the network, based on the individual composition of their relations. Finally, we outline the article's main conclusions.

2. HISTORICAL CONTEXT:

The Economic Council was created by the Danish government in 1962 to act as an 'independent' advisory body to analyse the economic development and report to the government and Parliament. The establishment of the Council was advanced especially by Economy Minister Kjeld Philip from the centrist party, Radikale Venstre, with support from government partners in the Social Democratic Party (Mikkelsen 1987, 188). The Council is headed by a presidency of four academic economists, the economic advisors who head a professional secretariat of about 30 employees. The consultative part of the Economic Council is composed of representatives of the business community and trade unions. Also, the National Bank, various ministries, and consumer organisations are represented, as well as a number of designated experts, a number of whom are former members of the presidency.

The *Law on Economic Council* formulated the two main tasks of the DEC: 'to assess the country's economic development and analyse the long-term development prospects and to help coordinate between various economic interests.' (Home Office 2007 [1962]). The intention behind the creation of the Council was thus twofold. On the one hand, the Council presidency were to provide an

'independent' assessment of the economic situation. On the other hand, the Council were also intended to form a part of the Danish corporatist system where it was to function as a forum for coordination between the government and the social partners, initially with particular emphasis on coordination of wage increases through income policy. The last role as a coordinator between employers and trade unions has never played a major role in practice because both unions and employers largely opposed the idea that the Council should act as an arbitrator with authority to set the annual salary increase rate (Due & Madsen 2012). Instead, it is the Council's second role as an independent economic analysis institution which has been significant in subsequent history. During the Council's history, it is the presidency, in interaction with the professional economic secretariat, that has come to dominate the institution, especially through the publication of half-yearly reports that assess the economic situation in Denmark. Although the presidency is formally appointed by the Ministry of Economy, it has in practice been given a large degree of autonomy. Former Council President Niels Kærgaard describes how economy ministers since the end of 1960 'have followed presidencies' proposals for new appointments so that the Council is de facto self-perpetuating' (Kærgård 1996, 116).

3. EXPERTS: BETWEEN INSTITUTIONS AND NETWORKS

Most of the Danish-language research literature on the DEC has been concentrated in the discipline economics with some treatment in the political science literature. The emphasis in most of this literature has been on the discussion and evaluation of specific policy recommendations made by successive presidencies. Among the most central debates in recent decades have been the debate around the economic consequences of a possible Danish entry into the Euro (Marcussen 2002; Ølgaard 2002) and on the assessment of fiscal policy during the 2000s housing bubble (Sorensen 2013; Sørensen & Rosholm 2009). To the extent that the institution's role has been treated on a general level, it has

taken the form of reflections from former or current presidents on the Council's role and their own practice. The focus here has largely been on the Council's relationship with the political system and how the DEC has managed to maintain its professional independence without losing political relevance and impact (Kærgård 1996; Sørensen & Rosholm 2009; Ølgaard 1977 2002). In the Council's 50th anniversary publication, then President Jørgen Whitta-Jakobsen summarises how 'independence is a crucial keyword' of the Council and that 'the institution's existence is based on technical expertise and high credibility' (Whitta-Jacobsen in 2012, 9). This analysis is supported by prior DEC members Niels Kærgård (1996) and Torben M. Andersen in 2002; the latter notes that 'there is no partisan bias in the reports of the Economic Council' (Andersen 2002).

It is understandable that practitioners working at the intersection of the political and scientific spheres reflect on questions of partisan independence of academic research. The focus on the issue of partisan independence, however, can stand in the way of a broader understanding of the DEC's real connectedness to wider networks of decision-makers in the Danish political economy. The DEC is one of the strongest consultative councils in Denmark today. The reason for this, we will argue, lies not in the institution's independence, but on the contrary, in its strong connectedness, or embedding, in the decision-making network in and around the political system. These networks consist not only of elected politicians but just as importantly of key decision makers in other social sectors—notably business. We believe the combination of being embedded in these networks—but without formally being part of the political-administrative hierarchy—contributed to the institution's having come to almost monopolise the role of the translator of academic economic expertise to the political sphere and wider public. The enduring and stable role as an influential institution and the wide network of former and current presidents compared to their university colleagues testify to the professional and social status of the Council.

In the international literature, the political significance of economic ideas and academic economics expertise has been a growing field in recent years. This has been a trend within the sociology of science as well as institutional literature in the last two decades. In Peter Hall's seminal article 'Policy Paradigms, Social Learning, and the State' (1993), he borrows Kuhn's concept of a paradigm shift to analyse how changes in theoretical understandings of the economy can lead to shifts in the economic policy pursued at different levels. Since then, we have seen numerous studies of the entry of economic ideas into political life, usually with a particular focus on the importance of the spread of neoclassical theory and neoliberal ideas on the national (Hay 2001; Blyth 2002; Fourcade 2009; Lindvall 2009; Schmidt, 2011) and international levels (Marcussen 2000; Chwiero 2009).

A recent example of this literature is John Campbell's and Ove Kaj Pedersen's *The National Origins of Policy Ideas*, (2014). They describe how Denmark, compared to other countries, is characterised by a widespread consensus on major economic issues. This cuts across political and institutional boundaries and encompasses both trade unions and business. Pedersen, in 'The Competition State', further describes how this consensus is strongly linked to the construction of what he calls the 'economic imaginary'; a common understanding of national economic policy that characterises the academic economic mainstream, the economic thinking in the central administration as well as the majority of political parties in parliament (Pedersen, 2011, 126). Pedersen's concept is reminiscent of Peter Hall's 'policy paradigm', which he defines as a coherent set of cognitively embedded, inter-subjectively adjusted assumptions and theories about how a policy object (here, the economy) behaves (Hall 1993, 280). To describe how such a paradigm or economic imaginary is constructed, it is not only necessary to look at the relations between formal institutions, but also uncover the key players who produce and reproduce the paradigm and identify the specific network through which they operate.

Within the sociology of science, Michel Callon (1998) and Donald MacKenzie (2006) have put forward such a perspective on economic expertise. They emphasise the importance of economists and

economic ideas in building markets and other financial institutions. This takes place not only via theories but also technical tools such as models and calculation methods. These models can be constitutive in the specific networking that shapes the definition of what counts as economic knowledge. Academic experts become especially central when they can connect the network of academic knowledge production to the worlds of practical policy (Callon 1998, 1986 see also MacKenzie 2006; Chwiero 2009).⁴⁷

Besides an expert network, the importance of business-sector networks has also been demonstrated, especially in the American Social Network Analysis (SNA) tradition. For example, John Scott demonstrated how board membership plays a central role in the coordination and dissemination of knowledge within industries and even whole economies (Scott 1991), while Michael Useem describes how overlapping corporate board membership creates networks that help spread the information among America's largest companies and helps to construct consensus on a general understanding of the world (Useem 1984).

Combined, this literature has raised awareness of the rules of the economic profession as a social group whose strategic influence deserves empirical attention. In this article, we draw on insights from the institutional tradition and social network analytical tradition by arguing that a specific group of economists, namely the DEC presidencies, play a central role in the political decision-making network in Denmark. This role binds the rules of knowledge-producing networks of the economic discipline with key decision networks in the broader political economy. By identifying the personal networks of the presidents across different spheres in science, politics, media, business, and trade union movement, we identify the network structure that gives them the opportunity to influence key economic decisions. The article thus does not deal directly with the concrete discursive or ideological struggles over the

⁴⁷ In recent years, Callon has not made use of quantitative network methods, even though earlier in his career he made significant contributions in the field where he employed forms of network to map the organization of scientific cooperation.

content of the 'economic imaginary' (Pedersen 2011) but, instead, points to the network structures that enable the relative substantive agreement on socio-economic issues prevailing across a diverse set of actors.

In this, we draw on the network theoretical understanding of social actors as constituted by their relations with other actors. What is important is, thus, not only the actors' individual attributes and institutional affiliations but also their role and position in the network. Network theory identifies further new aspects of the social inequality and divisions of power based on the actors' relative position in a network rather than intrinsic characteristics (Wellman 1988; Emirbayer 1997). This approach typically aims to characterise network structures and stakeholder positions to explain the impact of the stakeholders' embedding in these structures as a way of explaining their actions (see Granovetter 1985, Borgatti & Halgin 2011). Conventionally, networks are defined as a set of actors or 'nodes' and an accompanying set of relations or connections that bind the actors together. The relations in networks are linked by 'shared' actors and thus 'paths' or 'tubes' which indirectly connect actors who otherwise would not be linked (Borgatti & Halgin 2011). In the following section, we present an analysis of how the DEC presidents connect central social sectors through their embedding in certain networks and pointing to different roles played by individual presidents.

4. THE DEC NETWORK

Our data set consists of all positions in significant public- and private-sector boards, commissions, and councils with the participation of current and former DEC members in 2012. These positions can originate from appointments in connection with the post of DEC member or be appointments that have occurred independently of the post. Data is pulled from Christoph Ellersgaard's and Anton Larsen's (2012) database 'The Danish Elite Network' which includes senior positions in 5,830

organisations in Denmark.⁴⁸ Thus we have the total network of individuals in the Danish elite that are connected to DEC members via official positions and the institutional affiliation of these individuals. Out of the 33 economists who have served in the DEC presidency since 1962, 20 appear in our data set.⁴⁹

All individuals in the data set are categorised according to the societal sector in which they had their primary employment in 2012. As described above, DEC was established as part of the corporatist bargaining structure in which the business community, trade unions, and government coordinated key socio-economic issues. In addition to these three sectors, we have also included research (university and other research institutions), media and culture, as well as other interest groups (organisations that are not directly related to the class interests such as environmental organisations).

If we compare the DEC members with the total population of Danish economics professors, they are significantly more strongly connected.⁵⁰ Past and present DEC members represent 9% of the total population of economics professors, yet they control 49% of the 77 official seats on boards, commissions, and councils that academic economists took up in 2012. The group ‘other professors’ have an average of 0.44 positions per person, while the group of DEC members is nearly 10 times higher by 4.2 positions per person.

With the above data, we construct a network matrix of all connections that current and former DEC members have through their positions. The networks analysed in this article are aggregated from ego-networks of the DEC members who thereby naturally become key players. This does not automatically translate into the overall location of the DEC members in the total Danish power elite, however (see

⁴⁸ These organizations include the 1,000 largest companies, all NGOs with official consultative status, 152 state boards and commissions, as well as 1,300 private foundations.

⁴⁹ The missing persons are due either to the fact that they are deceased or did not have positions that were significant enough to be included in the dataset. A full overview of individuals in and out of the dataset can be seen in appendix A

⁵⁰ The control group consists of all economics professors from Copenhagen University, Aarhus University, Aalborg University, University of Southern Denmark, Roskilde University, and Copenhagen Business School.

Ellersgaard & Larsen 2012). The total network that forms the basis of the analysis in the article consists of 398 persons, some of whom hold more than one position in the network. The 20 members and former members of the DEC have a total of 59 out of a total of 538 positions in the network. Table 1 shows the distribution of DEC members' relations at the sectoral level and the total number of connections across sectors.

As shown in table 1, the business sector is dominant in the network of the DEC members, the 214 links to business take up most of the DEC members' personal networks. Research and the public sector follow with, respectively, 158 and 100 connections, while trade unions and other sectors are significantly lower. As can be seen in Table 1, the triangle between business, research, and public sectors have the strongest links. There are especially many links between academia and business.

Table 1: Connections by sector

	DEC Members	Public sector	Business	Research	Labour Unions	Culture-Media
Public sector	100					
Business	214	308				
Research	158	161	398			
Labour Unions	58	70	215	53		
Culture-Media	32	54	132	85	5	
Other	28	34	78	44	19	15
Organisations						

Source: (Ellersgaard & Larsen 2012) and author's calculations.

Figure 1 shows a graphical representation of the network in which only people with two or more connections to the DEC members appear. This means that former DEC members Karsten Laursen, Niels Blomgren-Hansen, Arne Larsen, and Bent Rold Andersen are not included since they appear only on one board in the data set. The node size in Figure 1 is scaled according to the number of the individual's connections.

As shown in the graph the network constitutes a single network component, which means that all the graph 16 DEC members are connected. The total network is bound together by a few 'core' DEC members such as Nina Smith, Michael Svarer, and Torben M. Andersen. Also, there are a number of key people in the network who are not or have not been DEC members. LO (TUC) President Harald Børsting, Permanent Secretary of the Finance Ministry David Helleman, and DA (Employer Union) President Jørn Neergaard are all more centrally located in the network than the majority of the DEC members, even though only the positions that connect them with the DEC members have been included in this analysis.

So far, we have discussed network centrality in general terms, but a series of quantitative centrality measures exist which have been developed in the SNA literature as indicators of an agent's power, influence, and prestige in networks (Bonacich 1987; Borgatti 2005). The simplest of these is the degree-centrality which measures an agent's direct connections (Freeman 1979 219-220). When the purpose is to measure the access and opportunity to spread knowledge, degree-centrality is considered a robust indicator (see Borgatti 2005). So, we use this measure in the current analysis as well as in the graphical representation. However, degree only describes local centrality and takes no account of the indirect degree of connectedness players in the second degree (the aggregate degree of the actor's connections), the range of the actors in the network as a whole, or how often they act as

The graph displays a complex network of relationships between individuals. The nodes are represented by squares of varying sizes and colors (dark blue, light blue, and grey). The nodes are densely interconnected by a web of lines, representing relationships. The graph is highly clustered, with many nodes having multiple connections. The layout is somewhat circular, with nodes arranged around a central core. The names of the individuals are written next to their corresponding nodes.

so-called brokers.⁵¹ Unfortunately, the current data set is not suitable for advanced centrality analysis as it consists entirely of DEC members' ego-networks and only includes other actors to the extent that these are also connected to the DEC members. Degree centrality is the only measure that is not affected by this data limitation.

The average degree-centrality among the DEC members is 32.7, and the measure ranges from 3-91. Table 2 shows the 10 most central DEC members. The table also shows the distribution of DEC members' connections on sectors. Here, we see that virtually all the DEC members are most closely connected to the business and research sectors. At the same time, there is a marked variability in the manner in which individual DEC members' relations are distributed. For example, Nina Smith is more highly connected to the public, while Torben M. Andersen is relatively better connected to the trade union movement. However, we will give a detailed description of the individual DEC members' distribution of connections here, but instead, let the distribution serve as the basis for our further quantitative analysis of the variation in DEC members' institutional embedding in the wider political economy.

Table 2: Centrality, disaggregated by sector

	Membershi p period	Total degree centrality	Public sector	Business	Research	Labour Union	Culture- media	Other org
N Smith	1995-98	91	14	34	30	8	3	2
TM	1993-96	62	9	17	21	14	0	1

⁵¹ The essential centrality measures are Eigenvektor-, reach (or closeness) and betweenness-centrality. Eigenvektor centrality is sensitive to actors' connectedness in the second degree, i.e., compound connectedness. Reach centrality represents the average distance (measured as links) to other players in a network and are, therefore, often used as a measure of total scope. A further measure which is often used is Betweenness-centrality, which measures how often the actors function as the only bridge or gatekeeper between different actors (Freeman 1979: 221)

Andersen	2001-3							
M Svarer	2012-	56	2	11	38	0	5	0
CT Kreiner	2012-	48	7	14	15	7	1	4
JR Skaksen	2003-8	45	12	18	13	2	0	0
M Rosholm	2006-12	42	8	11	11	7	1	4
HJ Whitta-Jacobsen	2009-	42	7	11	12	7	1	4
ES	2007-	40	7	10	11	7	1	4
Amundsen								
N Kærgaard	1992-2001	36	4	9	20	0	1	2
E Hoffmeyer	1962-65	34	4	13	5	0	12	0

Source: (Ellersgaard & Larsen 2012) and author's calculations.

5. DIFFERING CLUSTERS

In this section, we seek to group DEC members using principal component analysis (PCA) and cluster analysis. The analysis is made on the distribution of DEC members' institutional relations as shown in Table 2. The purpose of PCA is to reduce the number of variables in a data set to classify them under a few new variables that capture the maximum variation from the original variables in the data set. These new variables are also called principal components. The advantage of PCA is that the basic components or dimension, as they conventionally are called, are expressed in geometric space with corresponding

distances between the original variable. The dimensions can thus be understood as a “dominant contradiction” between the variables described in a spatial continuum. If a DEC member scores high on one variable (e.g., number of connections to the public sector), this high score is often accompanied by a similarly low score on another variable. If two DEC members have similar variable outcomes, they will have a short spatial distance between them. When we compare the calculated geometric distances between the DEC members, we can, therefore, carry out a cluster analysis and place them in clusters, or groups, made up of DEC members with a relative geometric proximity. In this analysis, we have excluded the current DEC members, since their location is almost entirely determined by their membership in the Economic Council and, therefore, have almost identical positions.

As mentioned, one of the clear advantages of PCA is that it provides an intuitive geometric presentation of how variables are grouped in a spatial continuum. Do we, for instance, see a group in our data set that is distinguished by being strongly connected with the public sector and the business community but is less connected to research and trade unions or a group that is characterised by a balanced distribution of connections across sectors? PCA is well suited to answer such questions because the technique can find 'hidden' configurations in the data based on a correlation between a set of variables.

In Table 3, we present the dimensions, which consist of the dominant variable contradictions. Typically, the number of dimensions is selected based on three considerations: 1) the selected dimensions must explain at least 80% of the total variation, 2) the chosen dimensions explanatory power must be larger than the average of the total number of dimensions, but the dimensions must also 3) contribute a significant jump in the overall explanatory power (Ferré , 1997). Using these three principles we uncovered four dimensions, which together explain around 92% of the variance, which is shown in Table 1. By reducing the number of variables from 6 to 4, we lose 'only' 8% of the total information in the data.

Per convention, the dimension with the greatest explanatory power is denoted as the first dimension. In this case, the primary dimension captures the approximately 34% variance in the data, while the other three dimensions capture 21%, 19%, and 17%, respectively. The first dimension is called the primary dimension, while the other dimensions are secondary dimensions.

Table 3 shows the four dimensions with their four dominant variable-contradictions. The first column contains a variable spatial coordinate (Dim. 1), as plotted graphically in Figure 2, to show the graphical distances between the variables. A variable with a negative coordinate differs considerably in outcome from a variable with a positive coordinate point. In the second column, the table displays the contribution to the dimension of different variables. As shown, most of the primary dimension is constituted by the variables business and research, but there is great distance between their coordinate points, which means that people who have relatively many links to research have similarly relatively fewer links to business. In the secondary dimension, this correspondingly applies to culture-media in contrast to labour unions. The first three dimensions thus contain all six variables in the governing variable-pairs. This tells us that the variance in all six sectors helps to explain the variance in the data set as a whole. Furthermore, it tells us that the DEC members who have relatively many business connections often have relatively fewer connections in research. DEC members linked to culture-media, in turn, have relatively fewer connections within the labour unions, and connections to the public sector seem to be linked to an absence of links to ‘other organisations’.

Table 3: Dimensions

	Dim.1	ctr	Dim.2	ctr	Dim.3	ctr	Dim.4	ctr
State	.240	2.873	.028	.063	-.856	61.29	.310	14.98
Business	-.916	41.74	.291	6.644	.177	2.62	-.084	0.69
Research	.776	29.99	-.328	8.458	.047	.185	-.513	25.94
Union	.406	8.211	.791	49.17	.011	.011	.227	5.09
Culture	.036	.065	-.567	25.26	.379	12.03	.711	49.84
Other	.587	17.11	.364	10.39	.534	23.85	.188	3.47
org.								

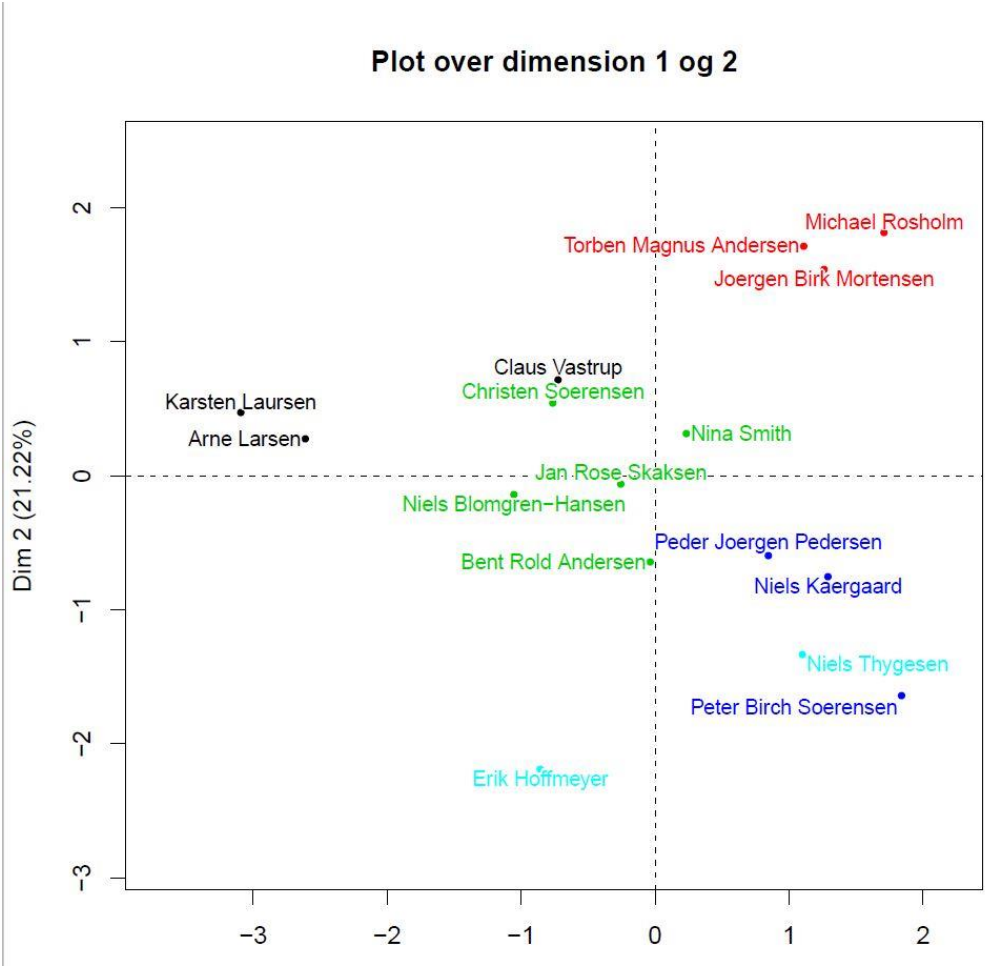
Source: (Ellersgaard & Larsen 2012) and author's calculations.

With the above dimensions identified, we can graphically plot the DEC members on the basis of their geometrical distances. The challenge in terms of visuals is that our analysis identifies four dimensions, hindering a single two-dimensional plot. For reasons of space, we can present only the first two dimensions graphically. This can be seen in Figure 2 in which the primary dimension represents the x-axis and the secondary dimension the y-axis.

Based on the data in table 3, we are now interested in grouping DEC members on the basis of their four-dimensional coordinates. We do this with a conventional hierarchical cluster analysis, which links the DEC members together based on distance. In choosing the number of clusters, we follow the same

principle as for the selection of dimensions. For this purpose, we utilise a so-called scree plot showing the relationship between the number of clusters and the proportion of the total variance in the geometric distances these capture. From these principles, we draw five clusters as we see a substantial leap in how well the average coordinates of the clusters match the actual individual coordinates in going from four to five clusters, while this jump is significantly less when we increase the number of clusters to six and up.

Figure 2: Dimension Map



The five clusters can be distinguished by the distribution of connections. It must be emphasised that all five clusters are relatively strongly linked to business. Part of this is a result of corporate boards dominating the data set, but it is nevertheless worth noting that none of the clusters is noticeably unconnected to business. Additionally, there are several systematic differences that characterise the five clusters. Table 4 shows the breakdown of the individual clusters.

The first cluster consists of DEC members who are significantly most related to business, but it has significantly fewer connections to research and no connections to the public sector. The first cluster also has a considerably smaller total number of connections than the average DEC member, which might be explained by the fact that it is more than 20 years since its members have held the role of DEC member. An obvious explanation for this group pattern of embeddedness is their age and social status, where business links all seem 'easier' to maintain than governmental and research links, where it probably requires official employment to fill a position.

The second cluster consists of DEC members with a stronger connection to the labour movement at the expense of being almost completely disconnected in culture-media. This group also stands out by having a high overall degree-centrality. With its simultaneous strong links to the trade unions, business, and the public sector, this group's links indicate classic corporatist role where academic economist mediate between the government and social partners, thus potentially contributing to the formation of a consensus-based economic imaginary among the decision-making networks. Members of this group have all been DEC members recently, and several play a prominent role in the public debate, such as Torben M. Andersen who recently was chairman of the influential Welfare Commission. This observation supports the understanding of the institution of the DEC as part of a corporate structure,

as the pattern of embeddedness for immediately retiring DEC members shows a wide integration that connects to government, trade unions, and business

The third and largest cluster is characterised by its members' strong public-sector relations combined with a noticeable lack of connections to 'other organisations'. The number of links within this cluster varies enormously—with Nina Smith and Jan Rose Skaksen as the most connected (respectively 91 and 45), which is in stark contrast to Bent Rold Andersen and Niels Blomgren-Hansen with few connections (resp. 3 and 6). Although they all share the relative distribution of compounds in sectors, it is no wonder that Smith and Skaksen emerge as key members: They are both known as government experts and for their role in public commission work.

The fourth cluster is particularly strongly connected to research and is again almost without connections to culture-media or unions. This could indicate that the members of this cluster mainly play a role in the research world, with relatively less emphasis on non-academic forums. The cluster includes, among others, Niels Kærgård, who is known for active discussion of the history and role of economic science in Denmark, and Peter Birch Sørensen, who has a more international profile. It is puzzling that Sørensen has no more connections to public institutions since he has been a member of the Tax Commission and served as chairman of the Productivity Commission of 2012. However, his connection-portfolio in 2012 is characterised primarily by research, which may be linked to the productivity commission which is dominated by researchers.

The fifth and smallest cluster is the only one characterised by being very highly embedded in culture-media, while they have no connections in the unions, and is only slightly related to research. This cluster consists of relatively older former members, such as Erik Hoffmeyer who also is the former governor of the central bank, Nationalbanken.

Table 4: Clusters

Cluster	N	Primary contradiction	% Public	% Business	% Research	% Union.	% Culture	% Other org.	Average degree
1	3	+ business - research	0%	79%	16%	3%	0%	3%	13
2	3	+ union. - culture.	17%	28%	29%	19%	1%	6%	45
3	5	+ Public - other org.	23%	39%	28%	7%	2%	1%	33
4	3	+ research - culture.	11%	24%	59%	0%	1%	4%	23
5	2	+ culture. - union.	15%	31%	23%	0%	29%	3%	31
Total									29

Source: (Ellersgaard & Larsen 2012) and author's calculations.

6. CONCLUSION

In this article, we have combined an institutional and network analytical approach to understanding the political and social role of economic experts. We argue that, to understand the role of experts, it is necessary to analyse the networks in which they are embedded. Furthermore, we examine how these networks connect key institutions and social forces across sector and class divides and, thus, constitute the relational infrastructure through which a dominant 'economic imaginary' can be formed and spread.

In this way, these experts can influence the Overton window within which crucial political decision-making processes take place. We have used the personal networks of DEC members to understand their institutional embedding in the wider political economy and presented a new method for identifying different patterns by drawing on methodological tools from network analysis, correspondence analysis, and cluster analysis. We have also argued that the DEC members play a particularly central role as organic economic experts, as they are much more closely linked to political and economic decision-makers than other academic economists.

In the analysis, we have combined the institutional and individual levels with a special eye to the key actors that make up the links between these institutions. We have also pointed out that academic economists' role in the construction of the 'economic imaginary' has most often been analysed in terms of the relation between formal institutions or with the focus on specific policy processes. Our analysis has tried to map the wider network within which these other processes take place by providing a method to map connections between individuals that transcends the formal institutional connections and reveal potentially hidden structures. In this sense, the article contributes empirically with a specific mapping of DEC members' institutional embedding but also provides an approach and a method to study other expert institutions' structural location and access to influence on policy-making.

The analysis in the article has demonstrated that the DEC members, compared to other academic economists at comparable career levels are significantly more strongly connected to decision-makers outside the university. This suggests that DEC as an institution not only has a direct influence through Council meetings and the publication of their semi-annual reports but also that the position gives current and former DEC members special status and access to the important network in politics and business.

Furthermore, we find that the DEC members also are acting as connectors between various sectors at a societal level. Again, this happens not only through the formal Council meetings but also through the network as previous DEC members have access to those by virtue of their status as former members. In the article, we find, however, a significant variation in the DEC members network location where a few DEC members are centrally located with many connections to various social institutions, while a larger group has fewer connections concentrated in a narrower set of sectors. We further identify five clusters, each of which is characterised by a particularly high proportion of links to one sector at the expense of relatively fewer connections to other sectors.

APPENDIX A. MEMBERS OF DEC PRESIDENCY

Table 5: Heads of DEC Presidency

<u>Head</u>	<u>Period</u>	<u>Institution and title</u>	<u>In Dataset</u>
Hans Jørgen Whitta-Jacobsen,	2009-12	Københavns Universitet,	+
Peter Birch Sørensen,	2004-2009	Professor, Københavns Universitet,	+
Torben M. Andersen,	2001-2003	Professor, Aarhus Universitet,	+
Niels Kærgård,	1995-2001	Professor, Den Kgl. Veterinær- og Landbohøjskole,	+
Arne Larsen	1993-94	Forstander Statens Jordbrugsøkonomiske Institut,	+
Claus Vastrup,	1988-93	Professor Aarhus Universitet,	+
Christen Sørensen,	1985-88	Professor Odense Universitet,	+
Karsten Laursen,	1983-85	Professor , Aarhus Universitet,	+
Hans E. Zeuthen,	1978-83	Professor Ålborg Universitetscenter/Handelshøjskolen i Århus,	-
Bent Rold Andersen	1976-78	Forskningschef, professor, AKF,	+
Anders Ølgaard	1970-75	Professor Københavns Universitet,	-
Carl Iversen	1962-69	Professor Københavns Universitet,	-

Source: DEC website <http://www.dors.dk/sw2882.asp>

Table 6: Other members of DEC Presidency

<u>Head</u>	<u>Period</u>	<u>Institution and title</u>	<u>In Dataset</u>
Claus Thustrup Kreiner	2010-	Professor Københavns Universitet,	+
Michael Rosholm	2006-12	Professor Aarhus Universitet,	+
Jan Rose Skaksen, ,	2003-08	Professor Handelshøjskolen i København	+
Jørgen Birk Mortensen,	1998-2006	Lektor Københavns Universitet	+
Søren Bo Nielsen	1999-2003	Professor Handelshøjskolen i København	-
Peter Birch Sørensen	1997-99	Professor Københavns Universitet	+
Nina Smith	1995-98	Professor Handelshøjskolen i Aarhus	+
Torben M. Andersen	1993-96	Professor Aarhus Universitet	+
Niels Kærgård	1992-94	Lektor/Professor Københavns Universitet	+
Niels Blomgren Hansen	1991	Professor, Handelshøjskolen i København	+
Arne Larsen	1988-93	Forstander, Statens Jordbrugsøkonomiske Institut	+
Claus Vastrup	1986-88	Professor Aarhus Universitet	+
Peder J. Pedersen	1985-91	Professor Aarhus Universitet	+
Niels Thygesen	1984-85	Professor Københavns Universitet	+
Ebbe Yndgaard	1983-86	Professor Aarhus Universitet	-

Erik Gørtz	1981-84	Professor Københavns Universitet	-
Karsten Laursen	1981-83	Professor Aarhus Universitet	+
Lars O. Matthiessen	1976-81	Professor Odense Universitet,	-
Hans E. Zeuthen	1975-78	Lektor/Professor Aarhus Universitet	-
Bent Rold Andersen,	1973-75	Professor/Forskningschef RUC/AKF,	+
J. Vibe Pedersen	1968-75	Professor Aarhus Universitet	-
N.V. Skak Nielsen	1967-73	Rigsstatistiker Danmarks Statistik	-
Anders Ølgaard,	1966-68	Professor Københavns Universitet,	-
Poul Winding	1965-66	Professor Handelshøjskolen i København	-
Erik Hoffmeyer	1962-65	Professor/Direktør Københavns Universitet/Bikuben	+
Søren Gammelgård	1962-67	Professor	-

Source: DEC website <http://www.dors.dk/sw2882.asp>

SUMMARY

In the decade since the 2008 financial crisis, the literature on economic ideas has exploded in the popular and academic fields, as the aura of inevitability of the dominant neoliberal ideas crumbled along with the balance sheets of the leading financial houses of the global financial system. In contrast to earlier economic crises, however, this time we have seen no subsequent shift in the scientific and policy paradigm within economics, as we did with the rise of Keynesianism after the great depression, or the advent of neoliberalism after the crisis of the 1970s.

Despite the loss of credibility and legitimacy of the ruling neoliberal paradigm of liberal neoclassical economics, relatively little has changed in the way economics is taught at universities or how macroeconomic policy is conducted and analysed in finances ministries or central banks across the world. It is in the light of this situation that this thesis tries to develop and apply a materialist approach to the study of the political influence of economic ideas. The aim is to deploy a framework that takes seriously the power and significance of economic ideas, but at the same times recognises their embeddedness in broader economic and institutional contexts, and considers the complex interplay between states, social forces, ideas and political actors.

This is done through five individual articles that each try to intervene in the debates around the influence of economic ideas and the nature of neoliberalism, outlined as follows.

Ruling the Interregnum: Economic Ideas and Authority in Non-Hegemonic Times deals with the apparent lack of change in economic ideas and policy after the crisis. Through a comparison to earlier economic crises and with theoretical inspiration from Gramsci, the article develops a notion of the interregnum. This is a period after the breakdown of one hegemonic paradigm and the successful rise of the next. As these periods can last for decades they deserve further attention in the IPE literature.

The second article, *Economic Liberalism and the State: Dismantling the Myth of Naïve Laissez-Faire*, deals with the prevailing understanding of the state in critical political economics scholarship and liberal economic theory. In recent years, much of the work on neoliberalism has emphasised that neoliberal theorists and practitioners have generally had a much more positive view on state power than the traditional idea of the liberal night-watchman state would suggest. While this undoubtedly is correct, the idea is often construed by contrasting this with a caricature of classical liberalism, which is described as seeking a naïve realisation of just this so-called night-watchman state. Through an investigation of 19th century

liberal theory and practical policy, the article argues that this is incorrect, but that classical liberalism also involved a pragmatic and active use of state power. This invites a general reinterpretation of the relationship with the state in economic liberalism, inspired by the works of Karl Polanyi.

Beyond States vs Markets: Macroeconomics, Governance and the State, revisits the central macroeconomic debates of the 1970s, where a new generation of market-oriented neoclassical economists such as Lucas and Sargent overturned the dominant Keynesian theories that had dominated the post-war era. Normally this wave of New Classical Macroeconomics has been understood as a general critique of government intervention in the economy. But through a contextualised reading of the central papers of the debate, the article uncovers the fact that it is not so much political intervention and discretion that are criticised, but rather the democratic form that this took in the post-war period.

Neoliberalism with Scandinavian Characteristics: the Slow formation of Neoliberal Common Sense in Denmark shows the gradual adoption of a neoliberal paradigm in the Danish macroeconomic establishment since the 1970s. Based on a systematic analysis of documents from the Danish government and the Economic Council, the paper argues that the nature of this paradigm shift is more uneven and gradual than the literature traditionally suggests. Furthermore, the adoption of new strict monetary and fiscal policies was already in place from the early 1980s, before the intellectual tools of the new paradigm were dominant and developed. This suggests that it was not the intellectual dominance of liberal ideas that caused the initial adoption of neoliberal policies, but that economic theory instead played a legitimating role.

The last article, *Embedded Expertise: A Network Analysis of the Danish Economic Council*, offers a social network analysis approach to the study of the connection between academic economists and the general power elite within business and the state. The article represents the first attempt at situating academic economists within the wider elite networks, through a case study of Denmark. The analysis is focused on the Economic Council and the position and networks of the highly influential economists from the council's presidency, where many are centrally placed in the elite networks of the country. The focus of the article is primarily empirical, by demonstrating the effectiveness of the methods of social network analysis as a supplement to more traditional analysis focused on formal institutions.

DANSK RESUME

I de ti år, der er gået siden finanskrisen i 2008, er litteraturen om økonomiske ideer eksploderet. Dette kan ses som en reaktion på sammenbruddet af de neoliberale teoriers status som den uomtvistelige sandhed inden for økonomisk teori.

Inden for mainstream økonomi har vi dog ikke set et videnskabeligt og politisk paradigmeskift, i modsætning til efter tidligere økonomiske kriser som f.eks. keynesianismens opkomsten efter den store depression i 1930'erne eller fremkomsten af neoliberalismen efter krisen i 1970'erne. På trods af tab af troværdighed og legitimitet for det herskende neoliberale paradigme efter finanskrisen i 2008, har relativt lidt ændret sig i forhold til den måde, der bliver undervist i økonomi på universiteterne, eller den måde, hvorpå finansministerier og centralbanker verden over formulerer makroøkonomisk politik eller økonomiske analyser.

Det er i lyset af denne situation, at denne afhandling forsøger at udvikle og applicere en materialistisk tilgang til studiet af økonomiske ideers politiske indflydelse. Målet er at etablere en ramme, der tager økonomiske ideers kraft og betydning alvorligt, men på samme tid anderkender ideers indlejring i en bredere økonomisk og institutionel kontekst og samtidigt tager højde for det komplekse samspil mellem stater, sociale styrker, ideer og politiske aktører.

Dette gøres gennem fem individuelle artikler, der hver især forsøger at intervenere i den videnskabelige debat om økonomiske ideers indflydelse indenfor det neoliberale projekt. Artiklerne er som følger:

Ruling the Interregnum: Economic Ideas and Authority in Non-Hegemonic Times omhandler den tilsyneladende manglende forandring indenfor økonomiske ideer og politik efter krisen i 2008. Gennem en sammenligning med tidligere økonomiske kriser og med teoretisk inspiration fra Gramsci, udvikler artiklen begrebet *interregnum*. Dette begreb beskriver en periode efter sammenbruddet af et hegemonisk paradigme og den succesrige opkomst af det næste paradigme. En periode som kan vare årtier og derfor fortjener større teoretisk interesse indenfor forskningslitteraturen i international politisk økonomi.

Den anden artikel, *Economic Liberalism and the State: Dismantling the Myth of Naïve Laissez-Faire*, udfordrer den dominerende forståelse af staten indenfor nyere teorier om neoliberalismen. Meget af de senere års forskning om neoliberalisme har understreget, at neoliberale teoretikere og praktikere generelt har haft en langt mere positiv holdning til statsmagten end den traditionelle liberale minimalstat umiddelbart ville lade forstå. Selvom denne beskrivelse af neoliberalismen utvivlsomt er korrekt, fremstilles ideen

ofte ved at kontrastere den med en karikatur af klassisk liberalisme, der beskrives som et forsøg på at realisere en naiv forestilling om netop denne minimalstat. Gennem en undersøgelse af liberal teori og praktisk politik fra det 19. århundrede demonstrerer artiklen, at denne opfattelse er misforstået, men at den klassiske liberalisme også indeholdt en pragmatisk og aktiv anvendelse af statsmagten. Dette peger på behovet for en generel nyfortolkning af forholdet til staten i økonomisk liberalisme, med inspiration fra Karl Polanyis værker.

Artiklen *Beyond States vs Markets: Macroeconomics, Governance and the State*, gennemgår de centrale makroøkonomiske debatter fra 1970'erne, hvor en ny generation af markedsorienterede neoklassiske økonomer som Lucas og Sargent omstyrkede de dominerende keynesianske teorier, der havde præget efterkrigstiden. Normalt er denne bølge af såkaldt *New Classical Macroeconomics* blevet forstået som involverende en generel kritik af regeringsintervention i økonomien. Men gennem en kontekstualiseret læsning af debattens centrale forskningsartikler viser denne artikel, at det ikke er så meget politisk indgriben som sådan der kritiseres, men snarere det demokratiske element af økonomisk politik.

Neoliberalism with Scandinavian Characteristics: the Slow formation of Neoliberal Common Sense in Denmark viser den gradvise opkomst af et neoliberalt paradigme i den danske makroøkonomiske establishment i perioden siden 1970'erne. Baseret på en systematisk analyse af dokumenter fra den danske regering og det økonomiske råd argumenterer artiklen for, at dette paradigmeskifte er mere ujævnt og gradvist end forskningslitteraturen normalt ville antage. Endvidere var vedtagelsen af nye stramme monetære og finanspolitiske foranstaltninger indenfor den økonomiske politik allerede på plads fra begyndelsen af 1980'erne, altså før et paradigme og nye intellektuelle værktøjer var kommet frem. Dette tyder på, at det ikke var liberale ideers intellektuelle dominans, der forårsagede den oprindelige vedtagelse af neoliberale politikker, men at den økonomiske teori i stedet spillede en legitimerende rolle.

Den sidste artikel, *Embedded Expertise: A Network Analysis of the Danish Economic Council*, demonstrerer hvorledes social netværksanalyse kan anvendes til studiet af forbindelsen mellem akademiske økonomer og den politiske og økonomiske magt. Artiklen repræsenterer det første forsøg på at placere akademiske økonomer inden for de bredere elite-netværk gennem et case studie af den danske elite. Analysen er fokuseret på Det Økonomiske Råd og de indflydelsesrige økonomers som udgør rådets formandskab. Artiklens fokus er primært empirisk og den demonstrerer netværksanalysens anvendelighed som et supplement til mere klassiske studier fokuseret på formelle institutioner.

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